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POWER CORPORATION OF CANADA

Annual Report 2000

Power Corporation of Canada

Financial Highlights For the years ended December 31

	(in millions of dollars, except per share information)	
	2000	1999
Total revenue	16,906	14,751
Net earnings	657	533
Operating earnings per participating share	2.31	1.76
Earnings per participating share	2.93	2.36
Dividends per participating share	0.5750	0.4875
Consolidated assets	60,564	57,908
Consolidated assets and assets under administration	142,221	132,286
Shareholders' equity	3,938	3,450
Book value per participating share	16.91	14.64
Participating shares outstanding (<i>in millions</i>)	220.4	220.9

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Si vous préférez recevoir ce rapport annuel en français,
veuillez vous adresser au Secrétaire,

Power Corporation du Canada

751, square Victoria, Montréal (Québec) Canada H2Y 2J3 ou
bureau 2600, Richardson Building, 1 Lombard Place,
Winnipeg (Manitoba) Canada R3B 0X5

Power Corporation of Canada is a diversified management and holding company.

Power Corporation holds a 67.4 per cent interest in **Power Financial Corporation**, which in turn holds an effective equity interest of 80.1 per cent in Great-West Lifeco Inc. and 67.9 per cent in Investors Group Inc., and jointly holds with the Frère group a 54.7 per cent equity interest in Pargesa Holding S.A. Power Corporation also holds a 100 per cent interest in Gesca Ltée and Power Technology Investment Corporation. The foregoing figures represent percentage interests held at December 31, 2000.

Investors Group Inc. provides personal financial planning services and related products in Canada with a dedicated network of 3,500 consultants. It provides mutual funds, as well as securities services and a wide range of mortgage, insurance and brokerage services. Mutual fund assets under management exceed \$44 billion.

Great-West Lifeco Inc. holds a 100 per cent interest in The Great-West Life Assurance Company ("Great-West Life") and in Great-West Life & Annuity Insurance Company. Great-West Life also holds a 100 per cent interest in London Insurance Group Inc., which in turn owns a 100 per cent interest in London Life Insurance Company. Total assets and assets under administration of Lifeco and its operating subsidiaries are over \$92 billion.

The Great-West Life Assurance Company is a Canadian life and health insurance company providing group insurance and disability insurance products plus a broad selection of insurance and retirement savings and income products, including a range of investment funds.

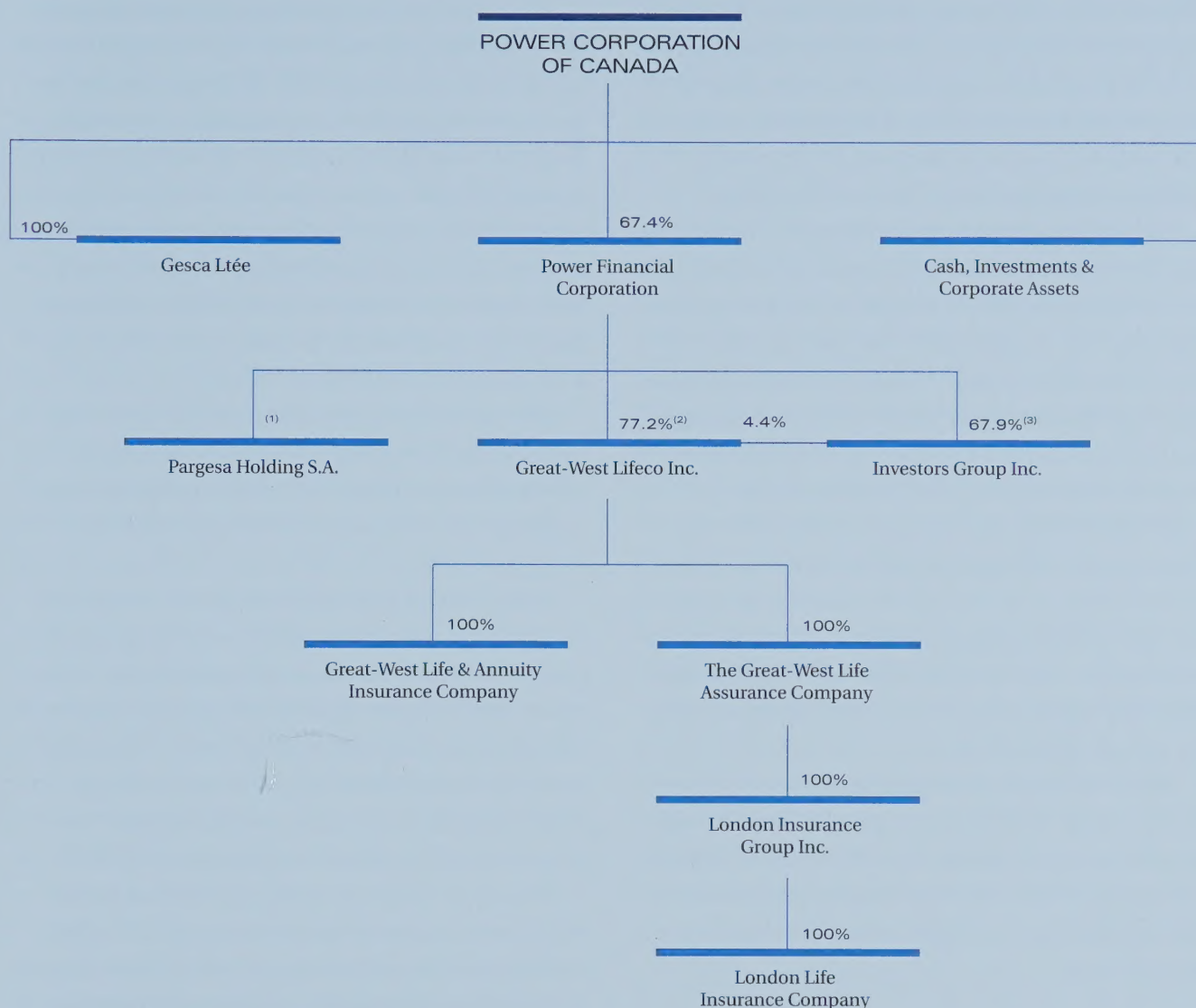
London Life Insurance Company provides savings, retirement income and individual life insurance products and mortgages in Canada and operates internationally through its subsidiary London Reinsurance Group Inc., a supplier of reinsurance in the United States and Europe.

Great-West Life & Annuity Insurance Company operates in the United States of America providing employee benefits for corporations and meeting the retirement income needs of employees in the public/non-profit sector.

The Pargesa group holds significant positions in a selected number of large companies based in Europe. These companies operate in strategic industries including media, energy, public utilities and specialty minerals.

Gesca Ltée holds a 100 per cent interest in the Montréal daily newspaper *La Presse*, six other daily newspapers in the province of Québec and three printing operations.

Group Organization Chart



Above percentages denote participating equity interest in principal subsidiaries and affiliated company as at December 31, 2000.

(1) Through its wholly owned subsidiary, Power Financial Europe B.V., Power Financial Corporation held a 50 per cent interest in Parjointco N.V. Parjointco held a voting interest of 61.4 per cent and an equity interest of 54.7 per cent in Pargesa Holding S.A.

(2) 65 per cent direct and indirect voting interest

(3) The acquisition by Investors Group of all of the outstanding common shares of Mackenzie Financial Corporation under the terms of the cash and share offer made in January 2001 (including issuance of treasury shares to both Great-West Life and Power Financial) would result in Power Financial holding directly a 56.2 per cent interest in Investors Group after completion of the transaction, with Great-West Life holding a 3.5 per cent equity interest. The offer is more fully described on pages 5 and 6 of this report.

Directors' Report to Shareholders

The year 2000 was one of continued growth in the earnings of Power Corporation of Canada and its subsidiaries.

Power Corporation's share of operating earnings of its subsidiaries increased to \$478 million in 2000, from \$407 million a year earlier, due primarily to growth in operating earnings at Power Financial Corporation.

The Corporation's other operating items, which include income from investments, brought total operating earnings for the year to \$519 million, or \$2.31 per participating share, as against \$398 million or \$1.76 in 1999. This represents an increase of approximately 31 per cent on a per share basis. Other income of a non-recurring nature in 2000 consisted primarily of the gains realized by Power Broadcasting Inc. ("PBI", renamed Power Technology Investment Corporation) on the sale of its Canadian and U.S. communications assets and – as in previous years – of the Corporation's share of net gains recorded by the Pargesa group. The Corporation recorded Other income of \$138 million, or \$0.62 per share, in 2000, on an equity basis, compared with \$135 million, or \$0.60 per share, in the previous year.

Improved operating earnings together with Other income brought Power Corporation's 2000 consolidated net earnings to \$657 million, or \$2.93 per share, compared with \$533 million, or \$2.36 per share, a year earlier. This represents an increase of over 24 per cent on a per share basis.

Dividends

Dividends paid in 2000 on the Corporation's Participating Preferred and Subordinate Voting Shares rose to 57.50 cents per share, compared with 48.75 cents per share in 1999, an increase of 18 per cent. Common share dividends were also increased during the year at Power Financial Corporation, Great-West Lifeco Inc., Investors Group Inc. and Pargesa Holding S.A.

Subsidiaries' Results

Operating earnings of Power Financial Corporation and its North American subsidiaries achieved record levels, while within the Pargesa group, operating affiliates once again reported increases in net operating income, and non-recurring gains on the sale of investments, although lower than in 1999, were achieved.

Power Financial's earnings from operations increased to \$726 million, or \$2.00 per share, in 2000, from \$612 million, or \$1.68 per share, in 1999, reflecting primarily further increases in the operating earnings of Lifeco and Investors Group. Other income of a non-recurring nature was \$60 million in 2000, compared with \$222 million in 1999, reflecting primarily, as in previous years, capital gains recorded within the Pargesa group. This brought Power Financial's consolidated net earnings to \$786 million, or \$2.18 per share, for the year, compared with \$834 million, or \$2.32 per share in 1999.

Lifeco again made the largest contribution to Power Financial's profitability in 2000. Lifeco's net income attributable to common shareholders was \$643 million, compared with \$536 million in 1999, an increase of 20 per cent.

During the year 2000, Lifeco completed a reorganization establishing separate and distinct operations in Canada and the United States (discussed further in this report). Results for the year 2000 are reported in respect of Lifeco's two main operating subsidiaries: the Canadian company, The Great-West Life Assurance Company ("Great-West Life"), and the American company, Great-West Life & Annuity Insurance Company ("GWL&A").

Great-West Life in Canada reported that net income attributable to common shareholders was \$257 million, up 20 per cent from \$215 million in 1999. GWL&A reported that net income attributable to common shareholders was \$386 million, compared with \$321 million in 1999, an increase of 20 per cent.

Great-West Life reported that the increase in net income in 2000 reflected growth in fee income, strong investment performance and favourable morbidity experience, mitigated by a deterioration in reinsurance margins. GWL&A reported that the positive earnings result was due to a combination of increased fee income, strong investment performance and favourable morbidity experience, offset somewhat by unfavourable group mortality experience.

Investors Group reported net income of \$284 million, compared with \$236 million in 1999, an increase of 20 per cent.

Assets under management and administration of Investors Group at December 31, 2000 totalled \$48 billion, compared with over \$43 billion in 1999. Mutual fund assets were \$44 billion at year-end, compared with \$41 billion a year earlier. Investors Group's redemption rate, excluding money market funds, continued to outperform the average for all other members of the Investment Funds Institute of Canada.

Power Financial's share of net operating earnings of its European affiliate, including the effect of negative currency fluctuations was \$44 million in 2000, nearly the same level as in 1999. In addition, Power Financial's net share of Other income of a non-recurring nature recorded by Pargesa amounted to \$60 million in 2000, as compared with \$235 million in 1999 (which consisted mainly of the gain resulting from the PetroFina Total merger).

The Pargesa group's operating affiliates once again reported improvement in the operating results: at Imerys and Suez, net operating income increased by 17 per cent and 43 per cent, respectively and it more than doubled at TotalFinaElf. RTL Group, the new entity formed in July 2000, reported a pro forma EBITA (earnings before interest, taxes and amortization) increase of 29 per cent. These increases are offset in Pargesa's net consolidated results by changes in the structure of its portfolio.

Power Corporation's wholly owned subsidiaries, Gesca Ltée and Power Technology Investment Corporation contributed net income of \$106 million in 2000, compared with \$15 million in 1999. The figure for 2000 includes net gains recorded as a result of the sale by PBI of all of its communications assets during the first half of the year.

Group Developments

North America

Financial Services

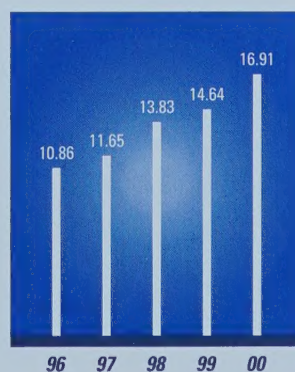
In November 2000, Investors Group, Great-West Life and London Life entered into a long-term distribution arrangement with the Canadian Imperial Bank of Commerce ("CIBC"). Under this exclusive arrangement, the three Power Financial group companies will distribute banking and brokerage products and services under

their own brands through their respective consultant and adviser networks nationwide. CIBC, through its Amicus division, will provide products and services as well as the operating infrastructure and technology to support these efforts.

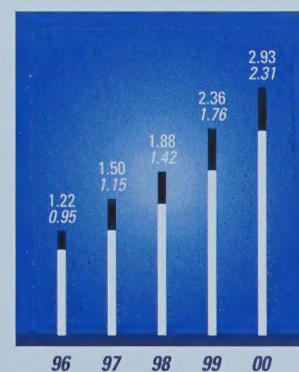
In December 2000, Great-West Life effected a corporate reorganization under which ownership of its U.S. subsidiary, GWL&A, was conveyed to a newly formed wholly owned direct subsidiary of Lifeco. As a result, GWL&A ceased to be a subsidiary of Great-West Life (see the group organization chart on page 3 of this report). This completed a process begun in the early 1980s of establishing separate and distinct operations in Canada and the United States to allow a better focus on each of these distinct markets. The reorganization received regulatory approval and was effective December 31, 2000.

In January 2001, Investors Group received the support of Mackenzie Financial Corporation's Board of Directors and management to make an offer to acquire 100 per cent of the outstanding common shares of Mackenzie Financial for consideration valued at \$4.15 billion. The combination of Investors Group and Mackenzie Financial will make them the dominant mutual fund franchise in Canada, the best balanced in terms of product offerings and distribution channels, and the low cost producer.

Book Value per Share
(in dollars)



Earnings per Share (in dollars)
■ Other income, net
Figures in italics represent operating earnings per share



Mackenzie Financial shareholders were offered \$30.00 per Mackenzie share payable, at their option, in cash or in Investors Group shares, based upon an exchange ratio of 1.2 Investors Group shares per Mackenzie share, being an issue price of \$25.00 per Investors Group share, or in any combination thereof, subject to a maximum cash amount of \$3.18 billion and a maximum of 38,720,011 Investors Group shares being available through the offer.

Great-West Life participated in the offer by undertaking to invest \$230 million to acquire 9,200,000 treasury common shares of Investors Group. Power Financial Corporation committed to invest up to \$138 million in treasury common shares of Investors Group in support of the transaction.

Technology and Communications

In April 2000, PBI completed the sale of its Canadian radio and television broadcasting assets to Corus Entertainment Inc., for total proceeds of approximately \$115 million.

In May 2000, the Canadian Broadcasting Corporation and PBI announced the sale of their two U.S.-based cable television services, TRIO and Newsworld International, to U.S.A. Cable, a division of U.S.A. Networks, Inc. for gross proceeds of approximately C\$155 million.

In August, PBI changed its name to Power Technology Investment Corporation.

In November 2000, Gesca Ltée concluded an agreement with Hollinger Canadian Newspapers to acquire Unimédia Inc. The transaction included, among other assets, three daily newspapers: *Le Soleil*, in Québec City, *Le Droit*, in Ottawa, *Le Quotidien*, in Chicoutimi, as well as 15 weeklies and three printing operations. The transaction closed in mid-January 2001 and was reviewed favourably by the Federal Competition Bureau. Gesca divested itself in February 2001 of all its weekly newspapers, including the weekly papers and various publications included in the Unimédia transaction.

Europe

On April 7, 2000, Pargesa Holding's affiliates, Groupe Bruxelles Lambert S.A. ("GBL") and Electrafina S.A., Bertelsmann AG of Germany and Pearson plc of England announced that they had agreed to merge CLT-UFA and Pearson Television into Audiofina S.A. to form a major pan-European integrated commercial television and radio broadcast and content company. As part of this transaction, GBL/Electrafina and Bertelsmann agreed to reorganize their interests in CLT-UFA, over which they had joint control since 1997. Following the completion of the merger, which became effective in July, Audiofina, which was renamed RTL Group, became the parent company of the new group with the objective of managing all its media operations as a unified group; GBL/Electrafina had a 30 per cent interest in RTL Group and joint control with Bertelsmann. RTL Group, with headquarters in Luxembourg and shares traded on the London Stock Exchange, is Europe's largest free-to-air television broadcaster, a major international producer and provider of television programming, and has a powerful European on-line presence on the Internet.

In February 2001, Power Financial Corporation and the Frère group announced that GBL/Electrafina and Bertelsmann AG had agreed to a share exchange of GBL's 30 per cent interest in RTL Group for a 25 per cent interest in Bertelsmann AG, the holding company of the Bertelsmann group. Following the transaction, which is subject to the approval of the competent authorities, Pargesa and GBL become the only publicly traded companies with a significant share interest in Bertelsmann AG. The transaction allows the group's media interests, which were focused in Europe and on electronic media, to evolve into a diversified global media business, with print, music, electronic media, and Internet activities in Europe, North America, and Asia.

On March 13, 2001, the Boards of Directors of GBL and its 82.8 per cent owned subsidiary Electrafina announced that they will submit an amalgamation proposal to their respective shareholders in April, further simplifying the structure of the group. The new entity will be Groupe Bruxelles Lambert. Following amalgamation, Pargesa will hold a 48.2 per cent equity interest (50.1 per cent of the voting rights) in the new GBL.

Board of Directors

Mr. Charles R. Bronfman did not stand for re-election at the Annual Meeting of Shareholders in May 2000. Mr. Bronfman was a director of the Corporation since May 1978 and served on the Executive Committee from 1991 to 2000 and on the Compensation Committee from 1984 to 2000. In 1988 he became a member of the International Advisory Council.

Mr. Pierre Scohier will also not stand for re-election at the Annual Meeting of Shareholders to be held in May 2001. Mr. Scohier has been a director of the Corporation since 1985 and a member of the International Advisory Council.

The Directors wish to thank Mr. Bronfman and Mr. Scohier for their involvement in the growth of Power Corporation.

Outlook

Though the world economy has entered upon a period of uncertainty, we believe that the future holds great promise for Power Corporation. We note a heightened interest in the financial markets in companies with a proven record of achievement and with good long-term prospects.

Our group companies are leaders in their fields. In the financial services industry in North America the companies of the Power Financial group are low-cost producers

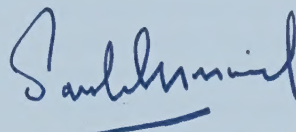
and hold leading market shares. They have participated actively and with great effect in the ongoing consolidation of that industry.

The Europe-based Pargesa group holds interests in companies that are among the world's leaders in their fields. These companies are well placed to participate in anticipated growth in the media, energy, public utilities, and specialty minerals industries.

Our positions in Asia and in the technology industry place us well to participate in the evolution of both.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution of the employees of Power Corporation and its associated companies to the successful results that have been achieved in the year 2000.

On behalf of the Board of Directors,



Paul Desmarais, Jr.
Chairman and
Co-Chief Executive Officer



André Desmarais
President and
Co-Chief Executive Officer

March 30, 2001

Management's Discussion and Analysis of Operating Results

Except as otherwise indicated, all figures are expressed in Canadian dollars.

Readers are referred to the condensed supplementary financial statements of Power Corporation further in this annual report. The supplementary financial statements set out the sources of the earnings, assets and capital resources of the Corporation.

This section of the annual report deals with financial results for the year 2000, and the following describes the structure of the group at December 31, 2000.

Power Corporation of Canada's (Power Corporation) principal asset is its 67.4 per cent interest in Power Financial Corporation (Power Financial), which holds substantial interests in the financial services field in Canada and the United States. Power Financial holds a controlling interest in Great-West Lifeco Inc. (Lifeco) and Investors Group Inc. (Investors Group). In Canada, Lifeco controls a 100 per cent voting interest in The Great-West Life Assurance Company (Great-West Life) which in turn holds 100 per cent of London Insurance Group Inc. (LIG); LIG in turn holds 100 per cent of London Life Insurance Company (London Life). In the United States, Lifeco controls a 100 per cent voting interest in Great-West Life & Annuity Insurance Company (GWL&A); effective December 31, 2000, the ownership of GWL&A, which was previously a wholly owned subsidiary of Great-West Life, was conveyed to a newly formed subsidiary of Lifeco. These companies and their subsidiaries manage and distribute an extensive range of financial products and services to individuals and corporations as well as public and non-profit entities and constitute an important part of the assets and results of the Corporation.

Power Financial also holds, jointly with the Frère group of Belgium, a significant interest in Pargesa Holding S.A. (Pargesa). The Pargesa group has substantial holdings in a selected number of major Europe-based media, energy, public utilities and specialty minerals companies which are solidly positioned in their respective markets.

Through its wholly owned subsidiary, Gesca Ltée (Gesca), Power Corporation has a direct interest in the communications sector. Gesca has for a long time been engaged in the publication of newspapers, and in the printing and publishing sector in Québec.

Power Broadcasting Inc. (PBI), another wholly owned subsidiary of Power, closed the sale of its radio and television operations in Québec and Ontario, and of its interests in specialty television channels in the United States in 2000. Since then, PBI has been renamed Power Technology Investment Corporation (PTIC) and redeployed a significant portion of the proceeds from these sales in various interests in the bio-pharmaceutical and information technology sectors.

Power Corporation also has investments in Asia which are part of the Corporation's long-term strategy.

Management's discussion and analysis of the Corporation's 2000 financial results focuses mainly on the operations of Power Corporation and each of the principal entities within the group. In addition to the consolidated financial results presented in this report, management has also prepared condensed supplementary financial statements, as in previous years, with its principal subsidiaries accounted for on an equity basis in order to facilitate the discussion and analysis of each of its activities. A discussion of the financial results, assets, liquidity and capital resources, and the outlook for Power Financial's subsidiaries and for Pargesa, have also been provided to give readers a better understanding of Power Corporation's underlying assets, earnings base and financial resources.

Power Financial, Lifeco and Investors Group publish a more detailed discussion and analysis of their results of operations and financial condition in their annual reports. Pargesa will publish its 2000 annual report in April 2001. Copies of the annual reports of Power Financial, of Lifeco and its subsidiaries Great-West Life, LIG and London Life, and of Investors Group and of Pargesa are available from the Secretary of each of these companies or from the Secretary of Power Corporation.

Highlights of Operating Results

In 2000, Power Corporation posted net earnings of \$657 million, compared with \$533 million in 1999. Earnings per participating share amounted to \$2.93, compared with \$2.36 in 1999.

Operating earnings per participating share increased by 31 per cent, from \$1.76 in 1999 (\$398 million) to \$2.31 in 2000 (\$519 million), while Other income increased from \$0.60 per participating share in 1999 (\$135 million) to \$0.62 per share in 2000 (\$138 million). The increase in operating earnings (+ \$121 million in total) is primarily due to (1) a significant increase (+\$71 million) in the share of operating earnings from subsidiaries, mainly due to strong operating results recorded by Power Financial and (2) an increase of \$50 million in corporate activities in connection with higher income from investments.

Consolidated revenues for the year ended December 31, 2000 were \$16.9 billion, compared with \$14.7 billion in 1999. The increase was primarily due to increased premium income and fee income. Consolidated expenses were \$15.2 billion in 2000, as opposed to \$13.3 billion in 1999, due principally to increased actuarial expenses.

Total assets and assets under administration of the Power Corporation group of companies stood at \$142 billion in 2000 (1999 – \$132 billion).

Power Corporation's consolidated assets stood at \$60.6 billion at year-end 2000, as against \$57.9 billion at the end of 1999.

Assets under administration increased to \$81.7 billion in 2000 from \$74.3 billion in 1999. These include the segregated funds of Lifeco which are predominantly used to fund pension plan obligations of policyholders and provide clients with a vehicle for investing in group and individual savings plans. The market value of these segregated funds was \$37.2 billion as at December 31, 2000 (1999 – \$33.7 billion). Investors Group's mutual funds assets, at market value, were \$44.5 billion in 2000 (1999 – \$40.6 billion). They consist of client assets invested in Investors Group's proprietary mutual funds and other co-branded funds. Lifeco and Investors Group earn fee income from the management and administration of these assets.

(In this section of the analysis, the principal subsidiaries are accounted for on an equity basis.)

Earnings

Share of operating earnings of subsidiaries

The Corporation's share of operating earnings of its subsidiaries, Power Financial (excluding its share of Other income), Gesca and PTIC (excluding gains from sale of Canadian and U.S. communications assets), was \$478 million in 2000, compared with \$407 million in 1999.

As in previous years, Power Financial was the major contributor to the increase in share of operating earnings; complementary information on the results of Power Financial and its subsidiaries and affiliate is found below in the corresponding sections of the discussion and analysis.

Corporate activities

In 2000, the net contribution from corporate activities was a profit of \$41 million, compared with a charge of \$9 million in 1999. These activities consist of income from investments less operating expenses, depreciation and amortization, and income taxes. Income from investments consists of interest and dividends received on the Corporation's cash and cash equivalents, net gains on the sale of securities and other investments, net of provisions for losses. The variance from 1999 is mainly due to an increase in income from investments.

Included in income from investments are gains recorded on the sale of marketable securities. Over the years, the Corporation has invested a portion of its cash in funds which, from time to time, make distributions in kind of securities when they go public. In 1999 and 2000, the Corporation received securities of companies in the high-tech sector. Some of these securities were subsequently sold, whereas others were held and hedges put in place to minimize risk. Several of these hedges matured in 2000.

Other income

Other income, calculated on an equity basis, was \$138 million in 2000, as opposed to \$135 million in 1999. Other income in 2000 includes the net gains resulting from the sale of communications assets by PBI (\$97 million) as well as the Corporation's share in Other income of Power Financial, net of miscellaneous charges. As described later in this section of the annual report, Other income of Power Financial was lower in 2000, as compared with 1999, due to lower non-recurring income recorded within the Pargesa group.

Assets and Liabilities

Cash and cash equivalents held by the Corporation (excluding cash held by principal subsidiaries accounted for on an equity basis), composed of high-quality financial instruments (denominated principally in Canadian dollars), amounted to \$105 million at year-end, compared with \$254 million at the end of 1999. The net decrease in cash is mainly due to the purchase of marketable securities.

It must be noted that cash and cash equivalents (1) do not include cash held by PTIC, which in the condensed supplementary financial statements is accounted for under the equity method, and (2) do not include potential future proceeds from the sale of securities received as distributions in kind and which have been hedged.

The carrying value of investments in subsidiaries, accounted for under the equity method, increased to \$3.1 billion at year-end, compared with \$2.7 billion in 1999, and represents the Corporation's interests in Power Financial, Gesca and PTIC. The increase is mostly attributable to the share of earnings of the subsidiaries, net of dividends received by the Corporation, and to a lesser extent, to the positive variation of foreign currency adjustments.

Other investments amounted to \$645 million at the end of 2000 (1999 – \$419 million) and included \$437 million of marketable securities (\$292 million in 1999) and \$208 million of unquoted securities (\$127 million in 1999).

The most significant investment was a 4.5 per cent interest (1999 – 3.4 per cent) in CITIC Pacific Limited, at a cost of \$434 million at year-end (\$277 million in 1999.)

The Corporation uses various financial instruments to hedge either foreign currency fluctuations on its holdings of foreign currency denominated temporary investments or marketable securities, or the value of marketable securities received on distributions and included in other investments. The principal objective in using financial instruments is to protect the value of assets and/or expected cash flows, and the use of these instruments is monitored on an ongoing basis by senior management.

Liquidity and Capital Resources

As reported above, Power Corporation held \$105 million in cash and cash equivalents at year-end 2000. In managing its cash and cash equivalents, the Corporation may invest in foreign currencies and may thus be exposed to fluctuations in exchange rates. As at December 31, 2000, 73 per cent of cash and cash equivalents was denominated in Canadian dollars.

Cash requirements for the payment of dividends are met by dividend income from the subsidiaries and affiliates, other investment income, interest and dividends on cash and cash equivalents, and, when required, from the Corporation's cash position. The annual dividends declared on the participating shares of Power Corporation increased from 48.75 cents in 1999 to 57.50 cents in 2000.

Shareholders' equity at the end of 2000 was \$3.9 billion, up from \$3.5 billion as at December 31, 1999.

The Corporation is predominantly capitalized by participating shares. Additionally, at year-end, there were 6,000,000 5.60% Non-Cumulative First Preferred Shares, Series A, outstanding with a carrying value of \$150 million, and 1,219,878 Cumulative Redeemable First Preferred Shares, 1986 Series, outstanding with a carrying value of \$61 million; during the year the Corporation purchased for cancellation 80,000 of these shares.

Participating shareholders' equity was \$3.7 billion at the end of 2000 (1999 – \$3.2 billion). This increase is mainly due to:

- an increase in retained earnings (+ \$466 million),
- to a lesser extent, an increase in foreign currency translation adjustments (+ \$23 million). These adjustments relate principally to the Corporation's indirect investment, through Power Financial, in Pargesa and in Lifeco's U.S. operations.

In 2000, the Corporation issued 473,250 Subordinate Voting Shares under the terms of the Executive Stock Option Plan, which resulted in an increase in stated capital of \$4 million (127,350 shares were issued in 1999, for an increase in stated capital of \$1 million).

During the year, the Corporation purchased and cancelled 1,030,500 (1999 – 1,509,100) Subordinate Voting Shares under its Normal Course Issuer Bid for an aggregate amount of \$22 million (1999 – \$35 million).

Book value per participating share was \$16.91 at the end of 2000, as against \$14.64 at the end of 1999.

Power Corporation, Power Financial and its subsidiaries and affiliate have substantial financial resources. The cash balances, together with credit facilities, enable the Corporation and the Power group of companies to enhance their positions in their respective sectors and industries and to position themselves to take advantage of selected opportunities on a timely basis.

Subsequent Events

In January 2001, Investors Group made an offer to purchase 100 per cent of Mackenzie Financial Corporation (Mackenzie). The Board of Directors of Mackenzie recommended acceptance of the Investors Group offer. Please refer to additional comments on the offer in the Directors' Report to Shareholders, earlier in this report.

Also in January 2001, Gesca finalized the acquisition from Hollinger Canadian Newspapers of Unimédia. With this acquisition, Gesca became the owner of *Le Soleil* (Québec City), *Le Droit* (Ottawa) and *Le Quotidien* and *Le Progrès-Dimanche* (both of Chicoutimi), as well as three printing operations. At the same time, Gesca announced the sale of all of its 24 weekly newspapers to G.T.C. Transcontinental Group.

In February 2001, Power Financial and the Frère group announced that their jointly controlled affiliate, Groupe Bruxelles Lambert S.A. (GBL), and Bertelsmann AG agreed to a share exchange of GBL's 30 per cent interest in RTL Group for a 25 per cent interest in Bertelsmann AG, the holding company of the Bertelsmann group.

On March 13, 2001, GBL and Electrafina, a holding company in which GBL has an 82.8 per cent interest, announced that they will submit an amalgamation proposal to their respective shareholders in April.

Independent Ratings of Power Corporation Preferred Shares

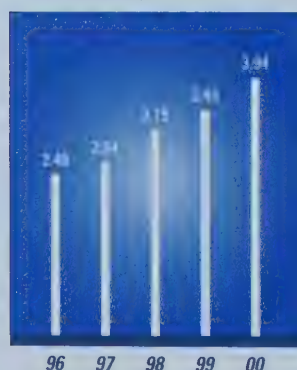
As at December 31, 2000	Dominion Bond Rating Service	Canadian Bond Rating Service
Cumulative Redeemable First Preferred Shares, 1986 Series	Pfd-2 (high)	P-1
Non-Cumulative First Preferred Shares, Series A	Pfd-2 (high) n	P-1 (low)

Power Corporation of Canada

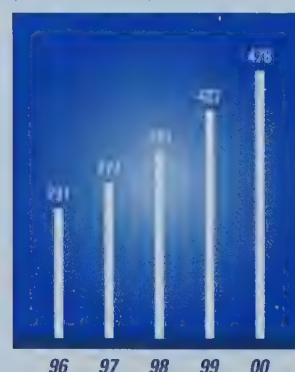
Condensed Supplementary Financial Statements December 31 (in millions of dollars)

	2000	1999
Condensed Statements of Earnings		
Share of earnings of subsidiaries	478	407
Corporate activities	41	(9)
Earnings from operations	519	398
Other income, net of income taxes	138	135
Net earnings	657	533
Earnings per participating share (in dollars)		
Earnings from operations	2.31	1.76
Net earnings	2.93	2.36
Condensed Balance Sheets		
Cash and cash equivalents	105	254
Investments		
Subsidiaries and affiliate at equity	3,141	2,716
Other	645	419
	3,786	3,135
Other assets	269	228
Total assets	4,160	3,617
Accrued liabilities and other	222	167
Shareholders' equity		
Non-participating shares	211	215
Participating shareholders' equity	3,727	3,235
	3,938	3,450
Total liabilities and shareholders' equity	4,160	3,617

Power Corporation of Canada
Shareholders' Equity
(in billions of dollars)



Power Corporation of Canada
Share of Earnings of Subsidiaries
(in millions of dollars)



Readers are referred to the condensed supplementary financial statements of Power Financial further in this annual report.

Earnings

In 2000, net earnings of Power Financial were \$786 million, compared with \$834 million in 1999. On a per share basis, earnings per common share were \$2.18 in 2000, compared with \$2.32 in 1999. The variance in net earnings reflects an increase of 19 per cent in operating earnings (\$2.00 per share in 2000, as opposed to \$1.68 in 1999), offset by a significant decrease in Other income (\$0.18 per share in 2000, as opposed to \$0.64 in 1999).

Share of Operating Earnings from Subsidiaries and Affiliate

The increase in operating earnings is mainly due to the significant increase in share of operating earnings of subsidiaries and affiliate, which amount to \$736 million in 2000, as opposed to \$621 million in 1999; share of earnings in Lifeco and Investors Group both increased by 20 per cent, whereas share of the European affiliate Parjointco decreased 4 per cent.

Readers are referred to the sections on Lifeco, Investors Group and Pargesa in this analysis for further discussions of the operating results of these entities.

Corporate Activities

The net contribution related to corporate activities is a charge of \$10 million, almost unchanged from the 1999 level of \$9 million.

Other Income

Other income amounted to \$60 million in 2000, compared with \$222 million in 1999. This item relates primarily, as in previous years, to capital gains recorded within the Pargesa group; due to its non-recurring nature, this item may vary significantly from one year to the next. In 2000, Pargesa recorded SF251 million in non-recurring income, as against SF911 million in 1999.

In 2000 capital gains included the gain recorded from the sale of Audiofina shares realized early in 2000 to increase liquidity in the market, as well as gains realized by GBL and Electrafina on certain portfolio holdings.

In 1999, Pargesa's non-operating earnings consisted mainly of the gains recorded in connection with the exchange offers made by Total for PetroFina and by Lasmo plc for Monument Oil and Gas plc (in which Electrafina held a 26.2 per cent interest), and of gains recorded by CLT-UFA and Imerys.

Assets and Liabilities

Cash and cash equivalents, composed of high-quality financial instruments denominated principally in Canadian dollars at year-end, amounted to \$375 million at the end of 2000, compared with \$362 million at the end of 1999.

Investments in subsidiaries and affiliate, accounted for under the equity method, aggregated \$4.8 billion at year-end, compared with \$4.3 billion in 1999, and consisted of the corporation's interests in Lifeco, Investors Group and Parjointco N.V. The net increase is mainly attributable to the share of earnings of subsidiaries and affiliate, net of dividends received, for an amount of \$494 million and, to a lesser extent (\$37 million), to the positive net variation of foreign translation adjustments.

Other investments were \$108 million (1999 – \$167 million) and included 5.5 million common shares of BCE Inc. and 8.6 million common shares of Nortel Networks Corporation (received pursuant to a spin-off of Nortel by BCE) with an aggregate carrying value of \$103 million held for the potential future exercise of the right to purchase by holders of the exchangeable debentures issued in 1989. These debentures have a carrying value of \$105 million (1999 – \$167 million). In 2000, rights to purchase BCE shares (for an aggregate carrying value of \$59 million) were exercised by debentureholders, and as a consequence, the carrying value of debentures on the books of the corporation was reduced by \$62 million.

Share of Operating Earnings ⁽¹⁾ of Subsidiaries and Affiliate

For the years ended December 31

(in millions of dollars)

	2000	1999	% Change
Subsidiaries			
Great-West Lifeco Inc.	494	411	20
Investors Group Inc.	198	164	20
Affiliate			
Parjointco N.V. (Pargesa Holding S.A.) ⁽²⁾	44	46	(4)
	736	621	19

(1) Operating earnings represent net earnings exclusive of non-recurring items.

(2) Pargesa's share of net capital gains recorded by operating companies within the Pargesa group are treated as non-operating earnings.

Other long-term debt represents the \$150 million principal amount of 7.65%, 10-year debentures issued on January 5, 1996, to fund the early redemption of the SF120 million of bonds that were initially due in March 1997. The \$150 million principal amount was swapped into SF127.5 million at a rate of interest of 4.43 per cent.

Liquidity and Capital Resources

In managing cash and cash equivalents, the corporation may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. As at December 31, 2000, 92 per cent of cash and cash equivalents were denominated in Canadian dollars.

The corporation's credit standing in the financial markets is as follows:

Independent Ratings of Power Financial

As at December 31, 2000

	Dominion Bond Rating Service	Canadian Bond Rating Service
Senior debentures	AA (low)	AA
Preferred shares		
cumulative	Pfd-1 (low)	P-1
non-cumulative	Pfd-1 (low) n	P-2

Cash requirements for the payment of dividends are met by dividend income from the subsidiaries and affiliate, interest and dividends on cash and cash equivalents, and, when required, the corporation's cash position. Total divi-

dends declared on the common shares of Power Financial increased from 60.25 cents in 1999 to 72.50 cents in 2000. The holders of common shares of the corporation benefited from increased dividends from subsidiaries and affiliate.

Shareholders' equity at the end of 2000 was \$5.0 billion, up from \$4.5 billion as at December 31, 1999. This increase is mainly due to the increase in retained earnings (+ \$465 million) and, to a lesser extent, by a net increase in foreign currency translation adjustments (+ \$34 million). These adjustments relate to the corporation's investment in Pargesa, partly hedged by the swapped \$150 million debt, and to its indirect investment in Lifeco's U.S. operations.

Book value per common share was \$12.72 at the end of 2000, compared with \$11.28 one year earlier. In 2000, the corporation issued 688,054 common shares pursuant to the terms of the Employee Stock Option Plan, resulting in an increase in stated capital of \$4 million (256,000 shares were issued in 1999, for an increase in stated capital of \$1 million). During the year, Power Financial purchased and cancelled 469,300 (1999 – none) common shares under its Normal Course Issuer Bid for an aggregate amount of \$10 million.

Power Financial and its subsidiaries and affiliate have substantial financial resources. The cash balances, together with credit facilities, enable the corporation and the Power Financial group of companies to enhance their positions in their respective sectors and industries and to position themselves to take advantage of selected opportunities on a timely basis.

Dividends

For the years ended December 31
(per share)

	Current annualized dividend ⁽¹⁾	2000 Cash dividend	1999 Cash dividend
Great-West Lifeco Inc. (C\$)	0.74	0.65	0.53
Investors Group Inc. (C\$)	0.70	0.61	0.49
Pargesa Holding S.A. – bearer share (SF)	75	74	73

(1) Lifeco and Investors Group: based on the quarterly dividend declared in January and February 2001, respectively. Pargesa dividend to be approved at the May 2001 Annual General Meeting.

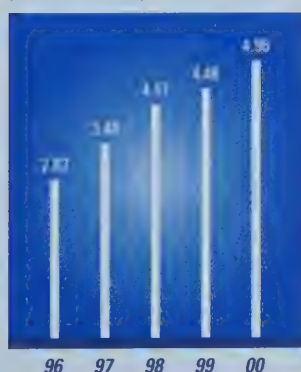
Power Financial Corporation

(In this section of the analysis, the principal subsidiaries are accounted for on the equity basis.)

Condensed Supplementary Financial Statements December 31 (in millions of dollars)

	2000	1999
Condensed Statements of Earnings		
Share of earnings of subsidiaries and affiliate	736	621
Corporate activities	(10)	(9)
Earnings from operations	726	612
Other income, net	60	222
Net earnings	786	834
Earnings per share (in dollars)		
Earnings from operations	2.00	1.68
Net earnings	2.18	2.32
Condensed Balance Sheets		
Cash and cash equivalents	375	362
Investments		
Subsidiaries and affiliate at equity	4,839	4,335
Other	108	167
Other assets	69	72
Total assets	5,391	4,936
Accrued liabilities and other	178	149
Exchangeable debentures	105	167
Other long-term debt	150	150
Future income taxes	(5)	8
Shareholders' equity		
Preferred shares	550	550
Common shareholders' equity	4,413	3,912
	4,963	4,462
Total liabilities and shareholders' equity	5,391	4,936

Power Financial Corporation
Shareholders' Equity
(in billions of dollars)



Power Financial Corporation
Annualized Dividend at Year-End
(in cents per share)



Readers are referred to the condensed supplementary financial statements of Investors Group further in this annual report.

As at December 31, 2000, Power Financial held a 67.9 per cent interest in Investors Group.

Investors Group's core business is to provide a comprehensive array of personal wealth creation and financial planning services to Canadians. Through Investors Group's network of highly trained and well-supported consultants, Investors Group offers an extensive package of financial planning services and products. This includes mutual funds, insurance, securities services, mortgages, guaranteed investment certificates, annuities and loans for registered investments.

At the end of 2000, Investors Group counted 3,480 consultants in its network – still the largest network of consultants in Canada. This was a decrease from 3,626 a year earlier, primarily because of the more competitive environment in which to attract qualified recruits. An emphasis on hiring top-quality candidates, however, continues to yield positive results. The percentage of consultants with more than four years' experience increased to 58.5 per cent from 57.0 per cent a year earlier. In 2000, Investors Group continued the redesign of its consultant compensation, recognition, and training programs. These programs were re-aligned to meet the key strategic objectives of client service, continued growth of a highly productive consultant network, and asset retention.

Investors Group continues to broaden its reach in the financial services market place.

- Investors Group acquired the MAXXUM Group of Funds from LIG through its subsidiary MAXXUM Fund Management Inc. in 1998. This acquisition provided Investors Group with access to 2,700 financial security advisers from LIG. In 1999, the formation of Scudder Maxxum Co. (now Maxxum Financial Services Co.) provided Investors Group with the opportunity to broaden the range of products offered to clients, experience economies of scale, capitalize on its product manufacturing capabilities and gain access to distribution channels that include full-service and discount brokers, insurance companies and other financial intermediaries.
- As a result of an exclusive long-term agreement entered into with the Canadian Imperial Bank of Commerce (CIBC) in 2000, Investors Group will soon be complementing its diverse product shelf of investment, insurance, mortgage and other financial management products with a complete range of personal banking and brokerage services. When available, these services will include deposit accounts, debit cards, credit cards, loans, chequing and bill payment services, plus an extended range of brokerage products and services such

Summarized Financial Information

(in millions of dollars)

	2000	1999	% Change
Sales of financial products and services			
Mutual funds	7,053	5,915	19.3
Securities (external assets gathered)	1,331	946	40.7
Mortgage operations	843	1,011	(16.6)
Deposits	105	87	21.2
Insurance (annualized premiums)	27	25	5.8
Net income	284	236	20.5
Assets under management			
Mutual funds	44,498	40,650	9.5
Corporate	1,985	1,812	9.6
Securities assets under administration	2,646	1,471	79.9
Insurance in force (face amount)	20,876	18,086	15.4
Mortgages serviced	7,147	7,569	(5.6)
Common shareholders' equity	1,096	967	13.4
Return on equity	28.1%	26.4%	
Per common share <i>(in dollars)</i>			
Earnings	1.35	1.12	21.0
Dividends	0.61	0.49	24.5
Book value	5.23	4.59	13.9

as improved trade execution, new equity and fixed income issues, as well as research and on-line capabilities. The new banking products and services will be available through Investors Group's network of consultants, as well as through ABMs, Internet and 1-800 access.

- On January 26, 2001, Investors Group entered into a definitive agreement with Mackenzie under which it will offer to acquire all of the shares of Mackenzie for a total consideration of \$4.149 billion, or \$30.00 per share. Subject to regulatory approval and acceptance by Mackenzie shareholders, the transaction is expected to be completed in the second quarter of 2001.

Investors Group derives its revenue from a range of sources, primarily, fees that are charged to its mutual funds for investment advisory and management services. Investors Group also earns revenue from fees charged to its mutual funds for administrative services. These fees are generally based on the net asset value of the funds. Investors Group derives revenue from fees charged to account holders for the distribution of funds by Investors Group's qualified consultants, as well as from the distribution of insurance products and securities services. Additional revenue is earned through investment certificate operations and mortgage operations.

Highlights of Operating Results

Investors Group achieved record net income of \$284 million in 2000. This represents an increase of 20.5 per cent from 1999 earnings of \$236 million. Earnings per share were \$1.35, up from \$1.12 in 1999.

Fee and investment income totalled \$1.2 billion, an increase of 14.9 per cent from 1999. Operating expenses incurred in earning fee and investment income amounted to \$691 million, an increase from the \$612 million incurred in 1999. These expenses (excluding commissions) as a percentage of average assets under management were 0.74 per cent in 2000, consistent with 1999, reflecting Investors Group's management's effective monitoring and control of expenses.

Shareholders' equity surpassed \$1 billion in 2000 and was \$1.10 billion as at December 31, 2000, up from \$967 million at December 31, 1999. Return on average common equity was 28.1 per cent, compared with 26.4 per cent in 1999. The quarterly dividend per common share was increased to 16 cents (64 cents annually) during 2000.

Sales Results

Sales of Investors Group's mutual funds were the highest in the corporation's history. Sales were strong throughout the year, which is encouraging considering that most markets declined in value during the last quarter of the year. Total sales in 2000 were \$7.1 billion. This represents a 19.3 per cent increase from \$5.9 billion in sales in 1999.

During 2000, insurance sales, measured on the basis of annualized premiums, increased 5.8 per cent to \$27 million – the highest level of insurance product sales in Investors Group's history. Investors Group Securities Inc., a subsidiary involved in securities operations, attracted \$1.3 billion in new assets – an increase of 40.7 per cent from the \$946 million placed in 1999. Sales of mortgage products reflected market conditions, with mortgage originations of \$843 million, compared with \$1.0 billion in 1999.

Revenues

Fee Income

Fee income is generated from the management, administration and distribution of 73 Investors Master Series™ and partner mutual funds, plus the 27 mutual funds offered by MAXXUM Fund Management Inc. and Maxxum Financial Services Co. The distribution of insurance products and the provision of securities services provide additional fee income. Total fee income rose by \$137 million to \$1.08 billion, a 14.6 per cent increase over 1999 results, reflecting the growth in average assets under management.

To provide a stable level of fee income, Investors Group must continue to maintain high levels of assets under

management. The level of assets under management is influenced by sales, redemption rates and investment management performance. Sales of Investors Group's mutual funds were at record levels in 2000 and its redemption rate for the year was 14.0 per cent (including money market funds). Although the redemption rate increased in 2000, it continues to be among the lowest in the industry. During 2000, investment management services provided reasonable capital preservation, thereby maintaining high asset values.

Management Fees

Current annual fees for management services provided to Investors Group's mutual funds range from 0.65 per cent to 2.5 per cent of assets under management. During 2000, management fee revenue increased by \$100 million to reach \$824 million, an increase of 13.8 per cent. This increase is a result of the growth in average mutual fund assets under management.

Administration Fees

During 2000, Investors Group earned a total of \$143 million in administration fees, compared with \$130 million in 1999. Trustee fee revenue increased 14.8 per cent – to \$21 million from \$18 million in 1999. While average assets under management increased 14.0 per cent during 2000, fees charged to the funds for administrative services increased only 8.4 per cent as a result of Investors Group's effective control of costs.

Distribution Fees

During 2000, distribution fee income rose by \$24 million. This increase is largely a result of fee income earned from the distribution of insurance and brokerage products, which increased 30 per cent during the year, as well as increased fee income resulting from redemption activity.

Investment Income

Investment income includes interest and dividends earned on cash and short-term investments, marketable securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of an affiliate's earnings, as well as income related to mortgage banking activities. Investment income totalled \$142 million in 2000 and represented 11.6 per cent of gross revenue, compared with 11.4 per cent in 1999.

Net investment income is the difference between investment income and interest expense. Interest expense is the interest on deposit liabilities, certificates and debt. Net

investment income on a taxable-equivalent basis was \$112 million, an increase of 30.3 per cent or \$26 million from the 1999 level of \$86 million. This increase is a result of lower average interest-bearing liabilities. Average interest-bearing liabilities were \$374 million, down 26 per cent or \$130 million from 1999 levels.

Investment margin represents the net investment income divided by average earning assets. This margin increased 193 basis points (bps) to 8.75 per cent in 2000 from 6.82 per cent in 1999. This improvement is a result of a higher investment spread, which contributed 131 bps and a decrease in the proportion of earning assets funded by interest-bearing liabilities, which contributed an additional 62 bps.

Expenses

Commissions

Investors Group incurs commissions expense in connection with the distribution of its financial services and products, particularly Investors Group's mutual funds. Consultants earn commissions on the sale of Investors Group products and, as a result, this expense will fluctuate to a significant extent with the level of sales. Commissions expense also includes an asset retention bonus based on the level of client assets serviced. Commissions expense increased by \$32 million, or 9.9 per cent, to \$357 million, compared with \$325 million in 1999. The increase in commissions expense was primarily a result of higher mutual fund sales.

Non-Commission Expenses

During 2000, non-commission expenses were \$334 million. This total included strategic and restructuring expenditures of \$51 million to develop and implement Investors Group's strategic plan, including:

- furthering its banking, brokerage and mortgage initiative with CIBC;
- developing and launching of additional products and services;
- enhancing in-house investment management capabilities;
- continuing development of strategic order entry systems;
- integrating MAXXUM Fund Management Inc. operations;
- integrating information technology services with Great-West Life and LIG;
- redesigning the sales compensation structure for consultants and field management;

- further developing of the brokerage platform.

Excluding these expenditures, non-commission expenses were \$283 million, representing an increase of \$30 million, or 11.8 per cent, from 1999. Variable costs rose by 16.6 per cent to \$76 million. Fixed costs increased by \$19 million, or 10.2 per cent, and were largely driven by initiatives related to the expansion of Investors Group's distribution activities.

Financial Position

Investors Group's on-balance-sheet assets totalled \$2.0 billion at December 31, 2000, compared with \$1.8 billion in 1999. Investors Group's holdings of securities decreased \$4.6 million, or 1.1 per cent, to \$416 million at the end of 2000. As of December 31, 2000, the market value of the marketable securities in Investors Group portfolios and its unregulated subsidiaries was \$491 million. Investors Group strives to ensure that its portfolio holdings are of the highest quality and seeks to manage the market and credit risk associated with a securities portfolio.

During 2000, mortgage loans decreased by 30.1 per cent, or \$93 million, to \$216 million. They represented 10.9 per cent of total assets, in comparison with 17.0 per cent in 1999. As at December 31, 2000, residential impaired loans totalled \$0.7 million, representing 0.27 per cent of the total mortgage portfolio, compared with \$0.7 million, or 0.20 per cent, in 1999. The allowance for credit losses exceeded residential impaired loans by \$8 million as at December 31, 2000, unchanged from December 31, 1999.

Liquidity and Capital Resources

Investors Group's liquidity requirements involve financing operations, servicing Investors Group's debt and equity, and maintaining liquidity in its regulated subsidiaries. In addition, Investors Group maintains a certain level of liquidity to be able to act on attractive investment opportunities when they arise.

A key liquidity requirement for Investors Group is the funding of commissions paid to consultants for the sale of mutual funds. Investors Group's commissions expense is fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds. In this regard, Investors Group has a competitive advantage over other mutual fund companies, which generally fund commissions with capital raised through the sale of limited partnerships or through

equity and debt markets. Investors Group can rely on its strong financial position to address funding issues of this nature internally.

Shareholders' equity amounted to \$1.1 billion at December 31, 2000, representing 55.2 per cent of total assets, compared with 53.4 per cent at year-end 1999. Investors Group monitors capital adequacy on an ongoing basis and maintains a conservative debt-equity ratio. At December 31, 2000, this ratio was 15.5 per cent, compared with 18.0 per cent at the end of 1999.

Independent reviews confirm the continuing quality of Investors Group's balance sheet and strength of its operations. During 2000, both the Canadian Bond Rating Service (CBRS) and the Dominion Bond Rating Service (DBRS) maintained their ratings of Investors Group's senior debt and liabilities. The senior debt and liabilities were rated AA- by CBRS and A High by DBRS. Management of Investors Group is confident that Investors Group's current capital resources are adequate and can support its activities during 2001.

Outlook

The mutual fund and financial services industries enjoyed significant growth in 2000. Analysts continue to forecast strong growth for both industries. This view is supported by changes in demographics (an aging population is turning its attention to savings and investment), changes in investment habits, the increasing ease of investment, and the continued concern over the adequacy of government-sponsored pension plans.

Investors Group is well positioned to participate in the future growth of the mutual fund and financial services industries. Investors Group enjoys a strong competitive position because of the inherent strengths of its financial planning approach and integrated business model.

To provide financial planning services to Canadians, Investors Group must compete with other mutual fund companies and, increasingly, with other financial services organizations including banks, brokers and life insurance companies. During 2000, mergers and acquisition activity increased, reflecting continued consolidation within the industry. Management expects continued consolidation in the industry as smaller participants are acquired by larger, more efficient organizations.

Investors Group has enhanced its competitive position by offering a broader range of products and services and a greater diversity of mutual funds, as well as a choice of investment managers, insurance, securities services and mortgages. The introduction of a managed asset program and the addition of multi-manager portfolios of funds are indicative of Investors Group's commitment to a broader

core product base. In addition, Investors Group's agreement with CIBC, through which consultants will offer banking and enhanced brokerage services in 2001, is another prime example of Investors Group's ability to expand its product shelf in new and unique ways.

The management of Investors Group believes that this strategy will enhance the extent and quality of Investors Group's client relationships, protecting Investors Group's client base and expanding its market share.

The highly developed nature of its integrated business model and the scale of its operations give Investors Group a distinct advantage over its competition. Investors Group's manufacturing and distribution capabilities, including its network of well-established consultants, are highly integrated. As a result, Investors Group is well positioned to meet increased competition for distribution relationships.

In January 2001, Investors Group announced its intention to acquire 100 per cent of Mackenzie. When the acquisition is completed, the combined companies will immediately become one of the largest retail wealth management entities in Canada, with over \$85 billion in assets under management and administration and more than two million clients across Canada. In keeping with Investors Group's integrated business model, management recognizes the potential for synergies that will benefit both organizations in such areas as corporate operations and infrastructure, but, respecting the important differences between Mackenzie and Investors Group, will retain separate management and distinct distribution channels, investment management operations and brands.

In addition to revenue enhancements and increased capabilities, the amplified scale of the combined companies should ultimately reduce costs for mutual fund unit holders. Moreover, the synergies created between Investors Group and Mackenzie would also extend to the other members of the Power Financial group of companies, Great-West Life and London Life.

Investors Group's management believes that the benefits of the proposed Mackenzie acquisition will include increased potential for high growth and profitability for the combined companies over the long term.

Market Influences

Corrections in domestic and international markets and increases in interest rates may affect the future outlook for Investors Group. Markets continued to be active and volatile through 2000. However, after declines in 1999, mutual fund sales rose throughout the industry as consumers kept their focus on the longer term. Increases in interest rates could have a significant impact on equity markets and mutual fund sales. Declines in the value of equity markets could also result in increased redemptions of mutual funds.

Redemption Rates

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. The redemption rate for Investors Group's mutual funds was 14.0 per cent (including money market funds) for the year, among the lowest in the industry. The redemption rate for the industry as a whole, excluding Investors Group, was 28.0 per cent.

Investors Group consultants play a key role in maintaining low redemption rates. They educate clients about the value of a long-term investment strategy and the benefits of an appropriate level of portfolio diversification. In periods of declining markets and market volatility, consultants have been effective in encouraging clients to assume a long-term investment outlook and continue to invest.

Investors Group Inc.

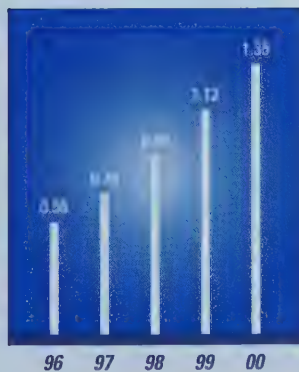
Condensed Supplementary Financial Statements December 31 (in millions of dollars)

	2000	1999
Condensed Statements of Earnings		
Gross revenue		
Fee income	1,076	940
Investment income	142	120
	1,218	1,060
Operating income	1,197	1,026
Operating expenses	691	612
Income before income taxes	506	414
Income taxes	222	178
Net income	284	236
Earnings per share (in dollars)	1.35	1.12

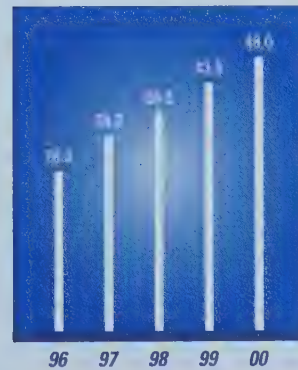
Condensed Balance Sheets

Cash and short-term investments	716	528
Securities	416	421
Mortgage loans	216	309
Investment in affiliate	293	280
Other assets	344	274
Total assets	1,985	1,812
Deposits and certificates	219	307
Other liabilities	502	367
Debentures and notes	168	171
Shareholders' equity	1,096	967
Total liabilities and shareholders' equity	1,985	1,812

Investors Group Inc.
Earnings per share
(in dollars)



Investors Group Inc.
Consolidated Assets under
Management and Administration
(in billions of dollars)



Readers are referred to the condensed supplementary financial statements of Lifeco further in this annual report.

As at the end of 2000, through its direct interest of 77.2 per cent and Investors Group's interest of 4.4 per cent, Power Financial holds an economic interest of 80.1 per cent in Lifeco. Power Financial holds, directly and indirectly, 65 per cent of the voting rights attached to all outstanding Lifeco voting shares.

At December 31, 2000, Great-West Life conveyed ownership of its U.S. subsidiary, GWL&A, to a newly formed

subsidiary of Lifeco. This new structure does not affect the consolidated financial position of Lifeco.

Lifeco controls a 100 per cent voting interest of GWL&A and Great-West Life, which in turn controls a 100 per cent voting interest of London Life. Through Great-West Life and London Life in Canada and GWL&A in the United States, a wide range of life insurance, health insurance, and retirement and investment products are offered to individuals, businesses and other private and public organizations. As well, as part of Canadian operations, Great-West Life offers reinsurance and specialty general insurance

Selected Financial Information

(in millions of dollars, except per common share amounts)

	2000			1999			
	Canada	U.S.	Total	Canada	U.S.	Total	% Change
For the Year							
Premiums:							
Life insurance, guaranteed annuities and insured health products	3,748	3,350	7,098	3,690	2,761	6,451	10
Reinsurance and property and casualty	2,878	—	2,878	2,075	—	2,075	39
Self-funded premium equivalents (ASO contracts) ⁽¹⁾	1,102	7,695	8,797	1,039	4,425	5,464	61
Segregated funds deposits: ⁽¹⁾							
Individual products	1,817	959	2,776	1,344	618	1,962	41
Group products	1,673	3,652	5,325	769	3,219	3,988	34
Total premiums and deposits	11,218	15,656	26,874	8,917	11,023	19,940	35
Fee and other income	346	1,295	1,641	278	944	1,222	34
Paid or credited to policyholders	7,423	3,951	11,374	6,547	3,389	9,936	14
Net income attributable to:							
Preferred shareholders	31	—	31	33	—	33	(6)
Common shareholders	257	386	643	215	321	536	20
Return on common shareholders' equity			18.6%			17.1%	
Per Common Share							
Net earnings			1.72			1.43	20
Dividends paid			0.65			0.53	23
Book value			9.81			8.70	13
At December 31							
Total assets	33,127	22,627	55,754	32,328	21,184	53,512	4
Segregated funds assets ⁽¹⁾	18,682	18,477	37,159	15,730	17,998	33,728	10
Total assets under administration	51,809	41,104	92,913	48,058	39,182	87,240	7
Capital stock and surplus			4,182			3,789	10

(1) Segregated funds deposits and self-funded premium equivalents (ASO contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, Great-West Life does earn fee and other income related to these contracts.

Segregated funds business is an option offered to policyholders under an insurance annuity contract, where the benefit amount is directly linked to the market value of the investments held in the particular segregated account. The contractual arrangements are such that the segregated funds contract holder bears the risks and rewards of the account's investment performance apart from death and maturity benefit guarantees. ASO Group health contractual agreements are those where Great-West Life provides administrative and claim paying services for clients, and under these arrangements, the client bears some or all of the claim risk. The self-funded premium equivalents generally represent claims paid under these contracts which approximate the additional premiums that would have been earned if these contracts had been written as traditional risk programs. Both segregated funds and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

products in specific niche markets through its subsidiaries, London Reinsurance Group Inc. and London Guarantee Insurance Company.

Highlights of Operating Results

Lifeco's net income attributable to common shareholders was \$643 million or \$1.72 per share, up 20 per cent from \$536 million or \$1.43 per share for 1999. The return on common shareholders' equity was 18.6 per cent for the year ended December 31, 2000.

Net income for 2000 reflects significant increases for both Canadian and United States operations compared with 1999.

Total premium income, including self-funded premium equivalents and segregated funds deposits, was up 35 per cent overall with growth in all major lines and, within this result, growth of 48 per cent in the fee-based self-funded and segregated funds lines. Reinsurance premiums were up 39 per cent over 1999, due to the irregular nature of contracts in this line of business. Fee and other income was up 34 per cent over 1999.

Capital stock and surplus increased to \$4.2 billion at December 31, 2000, from \$3.8 billion at year-end 1999. During 2000, Lifeco paid dividends of \$0.65 per common share, for a total dividend of \$243 million for the year. This represents a dividend payout ratio of 37.8 per cent of 2000 earnings (1999 – 37.1 per cent), and a 2000 dividend yield (dividends as a percentage of average high and low market prices) of 2.2 per cent (1999 – 2.2 per cent). Book value per

common share was \$9.81 at December 31, 2000, compared with \$8.70 at December 31, 1999.

Financial Position

Total assets and assets under administration grew to \$92.9 billion at year-end 2000, an increase of \$5.7 billion from 1999. Assets under administration include segregated funds of \$37.2 billion at December 31, 2000, compared with \$33.7 billion at the end of 1999.

Obligations to policyholders made up 91 per cent of total liabilities at the end of 2000 (the same as at year-end 1999). The valuation of policy liabilities is certified by the Actuary of Great-West Life and the Actuary of GWL&A as being in accordance with accepted actuarial practices.

Total capital and surplus, including non-controlling and other interests, of \$6.1 billion at December 31, 2000, was 12.3 per cent of total liabilities, compared with \$5.9 billion or 12.4 per cent in 1999. It is Lifeco's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of the Superintendent of Financial Institutions Canada has specified a measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements and Great-West Life's ratio is 196 per cent, a very solid level for the industry (210 per cent at the end of 1999). The change reflects the corporate reorganization effected December 31, 2000 which resulted in GWL&A being an indirect subsidiary of Lifeco rather than of Great-West Life.

Ratings of Major Subsidiaries of Lifeco

Rating Agency	Measurement	Ratings			
		Lifeco	Great-West Life	London Life	GWL&A
A.M. Best Company	Financial Condition and Operating Performance	—	A++*	A++*	A++*
Canadian Bond Rating Service	Investment Strength	—	AA+	AA+	NR
	Debt Rating	AA-	—	—	—
Dominion Bond Rating Service	Claims Paying Ability	—	IC-1*	IC-1*	NR
	Debt Rating	AA (low)	—	—	—
Fitch, Inc.	Insurer Financial Strength	—	AAA*	AAA*	AAA*
Moody's Investors Service	Insurance Financial Strength	—	Aa2	Aa2	Aa2
Standard & Poor's Corporation	Insurer Financial Strength	—	AA+	AA+	AA+

*Highest rating available

NR – not rated

All credit ratings of Lifeco and its major subsidiaries were reviewed during 2000. All CBRS ratings are as of October 31, 2000.

GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States.

The National Association of Insurance Commissioners has adopted risk-based capital rules and other financial ratios for life insurance companies. Based on the company's statutory financial reports, the company has risk-based capital well in excess of that required and is within the usual ranges of all ratios.

Asset Quality

At December 31, 2000, exposure to mortgage loans and real estate was 21 per cent of invested assets, unchanged from the end of 1999.

Lifeco's exposure to non-investment grade bonds was 1.2 per cent of the portfolio at the end of 2000, up slightly from 0.6 per cent at December 31, 1999.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled \$72 million or 0.2 per cent of invested assets at December 31, 2000, compared with \$96 million or 0.2 per cent a year earlier. Lifeco's allowance for credit losses at December 31, 2000 was \$147 million, compared with \$178 million at year-end 1999.

Canadian Operations

The discussion of operating results is followed by a report on operations of the Canadian segment of Lifeco, presented in terms of the major business units of Great-West Life and its subsidiaries, including London Life :

- **Group Insurance** – life, health and disability insurance products for group clients.
- **Individual Insurance & Investment Products** – life and disability insurance products for individual clients, as well

as retirement savings and income products for both group and individual clients.

- **Reinsurance & Specialty General Insurance** – life, property and casualty, accident and health, annuity co-insurance and specialty general insurance in specific niche business markets.

Net income from Great-West Life (Canadian operations of Lifeco) for 2000 was \$288 million, compared with \$248 million for 1999. Net income attributable to common shareholders was \$257 million, up from \$215 million for 1999.

The positive earnings results were due to a combination of growth in fee income, strong investment performance, and favourable morbidity experience, mitigated by a deterioration in reinsurance margins associated with accident and health lines. Net income attributable to common shareholders in 2000 also reflected a reduction in provisions for income taxes stemming from federal government announcements in 2000, offset by a provision related to reducing the company's exposure in Taiwan.

Total assets under administration in Canada reflect a 19 per cent growth in segregated funds assets in 2000.

Group Insurance

After a year of relatively flat growth during the integration of the London Life Group business in 1999, the Group operations resumed its historical growth trends with insurance premium income of \$2.974 billion in 2000. Overall premium income, which includes claims from non-insured administrative services only (ASO) clients, was up 7 per cent. This growth rate was driven by both positive sales and improved persistency (client retention).

Sales, as measured by annualized premium, were up 20 per cent over 1999, with significant gains recorded in the targeted small- and mid-sized client market. The growth

Premiums and Deposits – Canada

Years ended December 31
(in millions of dollars)

	2000	1999	% Change	2000	1999	% Change
	Premiums and Deposits			Sales		
Group Insurance	2,974	2,781	7	243	202	20
Individual Operations						
Life insurance	1,564	1,538	2	96	105	(9)
Disability insurance	109	102	7	20	20	–
Retirement & Investment Services	3,693	2,421	53	4,230	2,888	46
Reinsurance & Specialty General Insurance	2,878	2,075	39	2,878	2,075	39
	11,218	8,917	26	7,467	5,290	41

rate in this target market reflects the company's success in capitalizing on its strong distribution networks and leading market place position. Sales in the large case insured market were up sharply, but these results were offset by lower sales in the large case ASO market.

Individual Insurance & Investment Products

Individual Insurance & Investment Products consists of three distinct business divisions: Individual Life Insurance, Individual Disability Insurance, and Retirement & Investment Services.

Individual life insurance sales were \$96 million in 2000, while revenue premium exceeded \$1.5 billion. Sales declined 9 per cent overall in 2000, with term insurance sales being down 19 per cent compared with 1999 due to aggressive term pricing in the market. Universal life sales increased 6 per cent, and are focused in the under \$500,000 market. Sales of participating policies decreased 11 per cent, but were strong in the mature market, where consumers are concerned with wealth management.

Total sales of disability income products and critical illness insurance were constant in 2000 at \$20 million in new annualized premium. However, a general overall decline in the disability insurance market resulted in the company maintaining its leading market share of over 20 per cent.

In 2000, the company's Retirement & Investment Services business saw significant sales growth over 1999. The stock market correction in late 1998, combined with consumer concerns about Y2K, depressed contributions to investment funds in Canada throughout 1999. However, sales rebounded quickly in 2000, leading to the company's strongest year on record.

For a number of years, London Life has been involved in the mutual funds market through London Financial Centre (LFC). In 2000, the company rebranded LFC as Quadrus Investment Services Ltd. (Quadrus), and established it as a

mutual fund dealer for London Life and Great-West Life investment representatives. In 2000, sales of mutual funds through Quadrus increased 31 per cent compared with 1999, and at the end of 2000, Quadrus had more than 2,000 licensed investment representatives.

Reinsurance & Specialty General Insurance

Premium income associated with Reinsurance & Specialty General Insurance was higher, primarily due to the nature of underlying life and property and casualty reinsurance contracts written. In 2000, a greater number of structured reserve transfer deals were written than in 1999.

United States Operations

The discussion of operating results is followed by a report on operations of the United States segment of Lifeco, presented in terms of the major business units of GWL&A:

- **Employee Benefits** – life, health, disability insurance and 401(k) products for small- to mid-sized corporate employers.
- **Financial Services** – accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients.

Net income attributable to common shareholders from GWL&A (United States operations of Lifeco) in 2000 was \$386 million, up from \$321 million in 1999.

The increase in net income reflects improvements in both business segments. The Financial Services increase is associated with increased investment margins in the asset intensive lines, increased fee income and improved mortality. Employee Benefits earnings were positively affected by growth in fee revenue, improved morbidity experience, offset somewhat by unfavourable mortality experience.

The 42 per cent increase in premium income and deposits in 2000 was the result of growth in Employee

Premiums and Deposits – United States

Years ended December 31

(in millions of dollars)

	2000	1999	% Change	2000	1999	% Change
	Premiums and Deposits			Sales		
Employee Benefits						
Group life & health	9,439	5,927	59	1,452	863	68
401(k)	2,938	2,632	12	1,553	944	65
Financial Services						
Savings	1,916	1,321	45	1,035	651	59
Insurance	1,363	1,143	19	875	651	34
	15,656	11,023	42	4,915	3,109	58

Benefits premium income of \$3.8 billion and of an increase in Financial Services premium income and deposits of \$815 million. The growth in premium income in the Employee Benefits segment is primarily due to premium equivalents from ASO contracts.

Employee Benefits

The 2000 premium income for Group Life and Health was \$9.4 billion, an increase of 59 per cent from 1999. GWL&A experienced net case growth of 107 cases, which is primarily the result of a new simplified self-funded product introduced in the second half of the year.

GWL&A made two acquisitions in 1999, which increased medical membership and had a positive impact on operations in 2000. Effective March 2000, GWL&A assumed the in-force business of Allmerica Financial Corporation and converted each case as it was renewed to a GWL&A product.

Effective January 1, 2000, GWL&A acquired the Group Life and Health business of General American Life Insurance Company (General American). GWL&A co-insured all the risks associated with the General American block of business in 2000. Effective January 2001, GWL&A assumed the General American business through an assumption reinsurance transaction. This acquisition added approximately one million medical members and \$3.0 billion of equivalent premium income.

401(k) premiums and deposits increased 12 per cent in 2000 from 1999. The total 401(k) block of business under administration comprises 6,975 employer groups and more than 550,000 individual participants.

Financial Services

Overall sales were up 47 per cent over 1999 levels, as single premiums in 2000 were higher than 1999 by \$248 million.

Savings premiums and deposits totalled \$1.9 billion, which overall was 45 per cent higher than in 1999. Savings premiums increased 96 per cent to \$735 million, while savings deposits to separate accounts increased 25 per cent to \$1.2 billion.

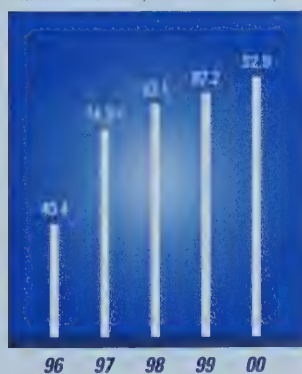
Individual life insurance revenue premiums and deposits of \$1.4 billion in 2000 increased 19 per cent from 1999 levels, due primarily to an increase in Bank-Owned Life Insurance separate account sales of \$243 million.

Outlook

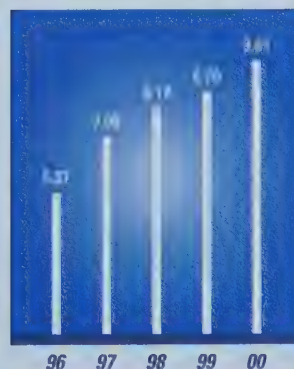
Lifeco continues to manage its businesses to achieve sustained growth to the benefit of shareholders, employees, representatives and customers. The company sees growth opportunities in a number of its current markets in Canada and the United States, and will enter new markets and distribution channels with the introduction of new products slated for 2001.

Condensed Supplementary Financial Statements December 31 <i>(in millions of dollars)</i>	2000	1999
Condensed Statements of Earnings		
Premium income	9,976	8,526
Net investment income	3,649	3,580
Fee and other income	1,641	1,222
	15,266	13,328
Paid or credited to policyholders and beneficiaries	11,374	9,936
Other expenses	2,704	2,334
	14,078	12,270
Income before income taxes and non-controlling interests	1,188	1,058
Income taxes	451	366
Non-controlling interests	63	123
Net income	674	569
<i>Per share data (in dollars)</i>		
Earnings	1.72	1.43
Condensed Balance Sheets		
Bonds	30,326	30,397
Mortgage and policyholder loans	14,370	14,104
Other assets	11,058	9,011
Total assets	55,754	53,512
Policy liabilities	45,099	43,433
Other liabilities	4,542	4,161
Non-controlling interests	1,931	2,129
Preferred shares	530	530
Common shareholders' equity	3,652	3,259
Total liabilities and shareholders' equity	55,754	53,512

Great-West Lifeco Inc.
Total Assets and Assets Under
Administration (in billions of dollars)



Great-West Lifeco Inc.
Book Value per Share
(in dollars)



(1) Including effect of the acquisition of
London Insurance Group Inc.

Highlights of Results

Power Financial and the Frère group, of Charleroi, Belgium, each hold 50 per cent of Parjointco N.V., a Dutch company that, as at December 31, 2000, held 61.4 per cent of the voting rights (61.1 per cent in 1999) and 54.7 per cent of the participating common shares (54.4 per cent in 1999) of Pargesa, the parent company of the Pargesa group. The shares of Pargesa are listed on the Swiss Exchange. The Pargesa group holds the group's investments in various large European companies active in the media (RTL Group), energy (TotalFinaElf), public utilities (Suez) and specialty minerals (Imerys) sectors.

At that same date, the carrying value of Power Financial's interest in Parjointco was \$1.3 billion, compared with \$1.2 billion in 1999. This increase represents Power Financial's share of the net earnings of Parjointco, foreign currency translation adjustments and other items, less dividends received.

As at December 31, 2000, Pargesa, based in Geneva, Switzerland, held a 54.6 per cent equity interest representing 59.1 per cent of the voting rights (49.3 per cent and 51.9 per cent, respectively, in 1999) in GBL, which is based in Brussels, Belgium, and listed on the Brussels, Amsterdam, and Luxembourg stock exchanges. Pargesa and GBL held a 54.1 per cent aggregate interest (52.7 per cent in 1999) in Imerys S.A., a company listed on the Paris stock exchange. As a result of a cash offer made during the first half of 2000 to purchase all of the common shares it did not already hold, Pargesa now owns 100 per cent (85.9 per cent in 1999) of Orior Holding S.A. (Orior), a company based in Vevey, Switzerland, active in the food industry. GBL, directly or through Electrafina S.A., an intermediary holding company under its control, holds the group's investments in RTL Group, Suez and TotalFinaElf.

Over the last few years, Pargesa has taken steps to:

- focus on a limited number of selected industrial and services groups that are well positioned in their respective

markets and over which the group has full or joint control, or in which it holds at least a significant interest. As part of this strategy, the Pargesa group has been active in helping local or regional businesses to turn into world-class companies.

- streamline the corporate structure of the group while strengthening its financial position.

As a result, the portfolio of investments has changed, several assets have been sold and, in some instances, significant acquisition, merger or exchange transactions have been carried out or encouraged in order to consolidate and strengthen the group's existing positions, including in 2000 and early 2001:

- the merger of Totalfina (which itself resulted from the 1999 merger between PetroFina, in which the Pargesa group was the dominant shareholder, and Total) with Elf Aquitaine in the energy sector;
- the increase of GBL's interest in Audiofina through an investment of \$1.5 billion, and the merger of CLT-UFA and Pearson Television into Audiofina, then renamed RTL Group, which created Europe's integrated commercial television and radio broadcast and content leader;
- the exchange transaction announced in February 2001 whereby GBL will exchange its 30 per cent interest in RTL Group for a 25 per cent interest in the world-class media company, Bertelsmann AG;
- the successful offer made by Pargesa to purchase all of the minority shareholders in Orior, a Swiss-based food industry leader;
- the amalgamation announced on March 13, 2001 of GBL into Electrafina, which will be renamed Groupe Bruxelles Lambert; Pargesa will then own 48.2 per cent of the new GBL's equity and 50.1 per cent of its voting rights.

Pargesa Group – Financial Information

As at December 31, 2000 (in millions of dollars)⁽¹⁾

	Pargesa Holding S.A.	Groupe Bruxelles Lambert S.A.
Cash and temporary investments ⁽²⁾	19	1,491 ⁽³⁾
Long-term debt	337	1,154 ⁽⁴⁾
Shareholders' equity	4,718	8,781
Market capitalization	4,879	8,710

(1) Foreign currencies have been converted into Canadian dollars at year-end rate.

(2) Net of financial debt due within one year

(3) Including net cash and temporary investments of Electrafina S.A. which amounted to \$1,242 million at December 31, 2000, as well as \$518 million of GBL shares held by GBL. The exercise of all outstanding options to purchase additional shares of RTL Group would result in a cash outflow of \$336 million.

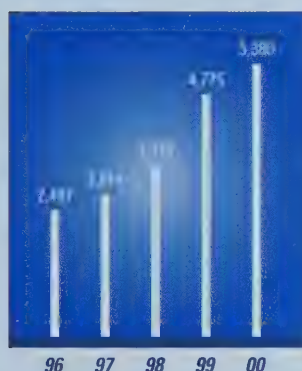
(4) Including convertible bonds issued in 1998 by GBL, for an amount of \$360 million and in 2000 by Electrafina for an amount of \$589 million.

- the sale of Lasmo plc in the United Kingdom for \$440 million, in which the group became a shareholder in 1999 as a result of the exchange offer made by Lasmo on Monument Oil and Gas, to Eni, in the energy industry.

As at year-end 2000, Pargesa's net asset value (based on market prices of listed companies) was as described in the table below, with the group's four primary investments comprising more than 95.9 per cent of the net asset value.

As at December 31, 2000, net asset value per share stood at SF5,380, an average increase of 21 per cent over 1996 (13 per cent over the last year). Net asset value per share for each of the past five years was as follows:

Pargesa Holding S.A.
Net Asset Value per Share
at Year-End
(in Swiss francs)



From an accounting standpoint, the implementation of the strategy undertaken over the past few years has led to a lower number of investments being accounted for under

the equity method as well as a reduction in interest income (as holding companies within the group have made significant investments) and increased dividend income (TotalFinaElf and Suez, which represent 50 per cent of Pargesa's net asset value, are accounted for at cost and as such only the annual dividend received from these companies is recorded in Pargesa's income statement). In 2000, the growth in the operating earnings of Imerys and RTL Group and in the dividends received from TotalFinaElf and Suez, leveraged by the increase of the group's economic interest in these four companies has been offset by lower interest income and higher goodwill amortization.

Furthermore, the group recorded significant capital gains, which are classified as non-operating earnings. In 2000 and 1999, non-operating earnings stood at SF251 million and SF911 million, respectively (including Pargesa's share of non-operating earnings recorded by operating companies accounted for under the equity method).

Pargesa Holding S.A.

December 31 (in millions)

	2000		1999	
	SF	\$ ⁽¹⁾	SF	\$ ⁽¹⁾
Operating earnings	174	153	175	173
Non-operating earnings ⁽²⁾	251	221	911	902
Net earnings	425	374	1,086	1,075

(1) Average Swiss franc to Canadian dollar: 0.8793 in 2000 and 0.9901 in 1999

(2) Including Pargesa's share of non-operating earnings recorded by companies accounted for under the equity method.

Non-operating earnings of SF251 million in 2000 was primarily attributable to the gain realized in the first part of the year on the sale of Audiofina shares and to gains recorded by GBL and Electrafina on disposals of various securities.

Pargesa – Net Asset Value (flow-through basis)

As at December 31, 2000 (in millions of dollars)

	Market Value (Pargesa's share)	%
RTL Group (29.7 per cent – joint controlling shareholder) ⁽¹⁾	2,717	32.6
TotalFinaElf (3.2 per cent – largest shareholder)	2,357	28.3
Suez (7.3 per cent – largest shareholder)	1,801	21.6
Imerys (54.1 per cent – controlling shareholder)	1,115	13.4
Orior (100 per cent) ⁽²⁾	155	1.9
Other investments	346	4.1
Net cash and short-term assets ⁽¹⁾⁽³⁾	475	5.7
Long-term debt ⁽³⁾	(635)	(7.6)
TOTAL	8,331	100

Note: percentage of ownership denotes the cumulative interests of Pargesa and its subsidiaries and affiliates as at December 31, 2000. The above information does not take into consideration transactions that will be completed in 2001.

(1) As at December 31, 2000, the GBL group was the beneficiary of options to purchase an additional 2.8 per cent of RTL Group shares that it intends to exercise. These options are valued based on the underlying market value of RTL Group shares, and the corresponding cash settlement (Pargesa's share: \$182 million) has been deducted from Net cash and short-term assets.

(2) Following the cash offer made to minority shareholders in 2000, Pargesa now owns 100 per cent of the common shares of Orior. The investment in Orior is valued using the price per share offered in 2000 by Pargesa to buy the minority shareholders.

(3) Pargesa's share of Net cash and short-term assets or Long-term debt

In 1999, net gains were mainly attributable to the contribution of the group's interest in PetroFina to Total and the disposals of other investments.

RTL Group is the new name of the group resulting from the merger, on July 25, 2000, of CLT-UFA with its parent company, Audiofina, and Pearson Television. The new group is jointly controlled by GBL and the Bertelsmann group, as was CLT-UFA prior to this transaction. GBL and Electrafina hold nearly 30 per cent of the new group's equity. RTL Group is traded on the London, Brussels and Luxembourg stock exchanges.

On a pro-forma basis, RTL Group recorded sales of \$5.5 billion in 2000, up 14 per cent, and an EBITA (earnings before interest, taxes and amortization) of \$760 million, an increase of 29 per cent. The operating margin of EBITA went from 12.1 per cent to 13.7 per cent. The group benefited from vigorous advertising markets, sound market positioning of its television stations and synergies generated by the transactions carried out in the past two years, in particular the implementation of the family concept.

EBITA performance was dampened by the impact on net earnings of amortization of goodwill resulting from all recent acquisitions and by the capital gains recorded last year on the sale of Première, the German pay-TV network.

TotalFinaElf experienced a year of growth. Oil production was slightly higher than 2.1 million barrels of oil equivalents per day. Eliminating non-recurring items, net earnings were up 128 per cent over the previous year, at \$10.5 billion for 2000. Net earnings were up 97 per cent at \$9.5 billion. Earnings in 2000 were driven by higher crude oil prices and refining and petrochemical margins, as well as sustained world demand and a strong dollar. Growth and the synergy and productivity programs announced when Totalfina and Elf merged had a positive impact of \$1.6 billion on operating results, which is in line with the announced program to improve results over the period 1999-2003 by \$6.0 billion per year at the 2003 horizon.

Suez, formerly Suez Lyonnaise des Eaux, experienced growth of 36 per cent in revenues, for total revenues of \$47 billion. The group pursued development in all its core businesses and in the international market (outside of France and Belgium), which now accounts for 48.5 per cent of its consolidated revenues. A total of \$40 billion has been invested over the last two years. Net income for Suez was up 32 per cent to \$2.6 billion.

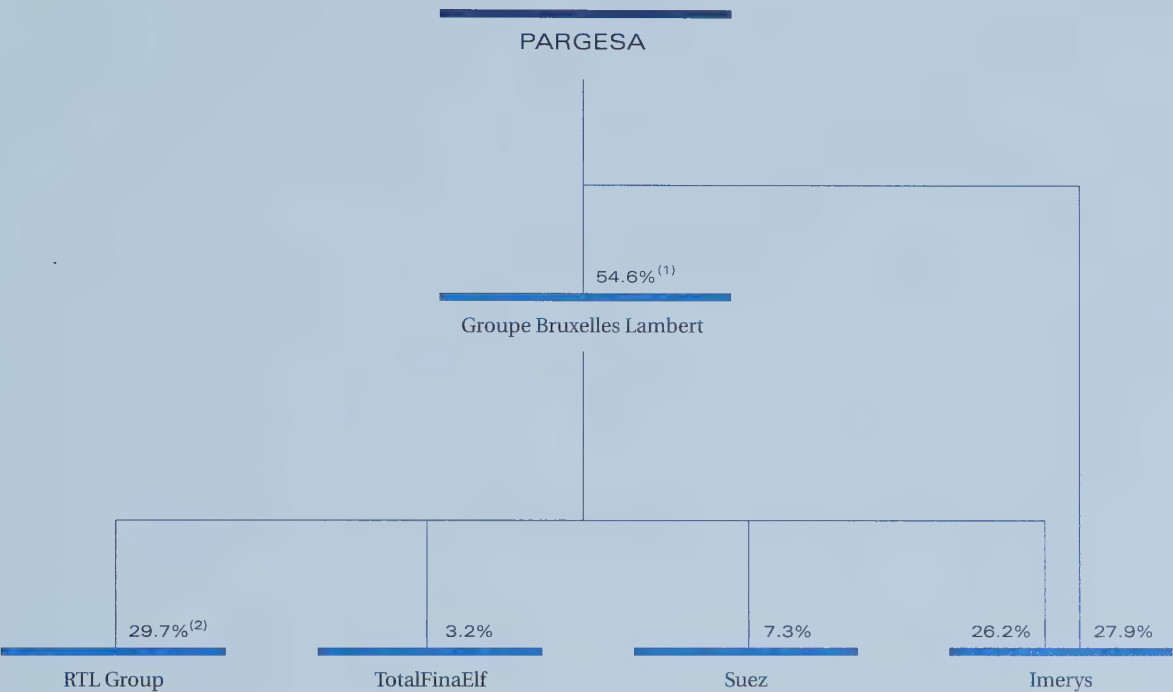
The group acquired control of several entities and took significant interests in others around the world. Excluding consolidation and exchange rate impacts, organic growth in 2000 reached 12.3 per cent, primarily as a result of strong growth in energy (+ 17 per cent). Consolidation impacts correspond to the group's recent acquisitions, primarily Epon (Netherlands), Entreprise Industrielle (France), Cabot LNG (USA), Hanjin City Gas (South Korea) in the energy sector and Nalco (USA), Calgon (USA) and Emos (Chile) in the water sector.

Imerys increased its net operating earnings by 16.6 per cent to \$228 million in 2000. Despite the U.S. economic slowdown late in the year, the group benefited in 2000 from good economic conditions in most of its markets and the impact of completed acquisitions, in particular, English China Clays plc, the world leader in white pigments, which was acquired in May 1999 for \$1.9 billion, and Treibacher Schleifmittel, the world leader in abrasives, which was included in the \$550 million in external growth achieved in 2000.

Net earnings for Imerys were \$192 million, compared with \$359 million in 1999; however, these figures are not comparable insofar as 1999 included a capital gain related to the disposal of the Metals Processing division, Copperweld Corporation.

Outlook

The Pargesa group intends to focus its activities on a small number of large Europe-based businesses. It wants to concentrate on developing these businesses from a strategic standpoint while simplifying and consolidating its own financial structure. In this regard, two transactions were announced in early 2001. On February 5, 2001, GBL announced that it planned to exchange its 30 per cent interest in RTL Group for a 25 per cent interest in Bertelsmann AG, the holding company of the Bertelsmann group. Bertelsmann is a world leader in media and telecommunications. The transaction is subject to the approval of the competent authorities. On March 13, 2001, GBL and Electrafina, a holding company in which GBL has an 82.8 per cent interest, announced that they will submit an amalgamation proposal to their respective shareholders in April; the proposed entity will be named Groupe Bruxelles Lambert.



Above percentages denote participating equity interest as at December 31, 2000.

(1) Pargesa held 59.1 per cent of the voting rights in GBL at December 31, 2000.

TotalFinaElf and Suez were held, at December 31, 2000, through an intermediary holding company, Electrafina, in which GBL held 82.8 per cent. Electrafina held 20.4 per cent of RTL Group and GBL held directly 9.3 per cent (including options on RTL Group securities).

Pargesa's equity interest in GBL is expected to become 48.2 per cent (50.1 per cent of the voting rights) provided GBL and its subsidiary Electrafina approve the merger of the two entities at a shareholder meeting scheduled for April 26, 2001.

(2) Following closing of the Bertelsmann transaction described on page 11, GBL will hold a 25 per cent interest in Bertelsmann AG, and the latter will own 67 per cent of RTL Group.

Composition of Pargesa's Net Earnings As at and for the years ended December 31 (in millions of dollars)⁽¹⁾

	Cumulative Equity Interest %	Pargesa's Economic Interest %	Contribution to Pargesa's Earnings			
			2000		1999	
			\$	%	\$	%
Contribution from principal holdings						
• Equity accounted						
RTL Group (media) ^{(2) (3)}	29.7	14.3	25	16	20	12
Imerys (industrial)	54.1	42.2	80	52	80	46
• Non-consolidated						
TotalFinaElf (energy)	3.2	1.4	32	21	29	17
Suez (public utilities)	7.3	3.3	29	19	27	16
			166	108	156	91
Other companies subject to equity accounting			10	6	6	3
Operating earnings from holding companies			6	4	21	12
Goodwill amortization			(29)	(18)	(10)	(6)
Earnings, before capital gains, net			153	100	173	100
Capital gains, net			221		902	
Net earnings			374		1,075	
Average currency rate			0.8793		0.9901	

(1) Converted into Canadian dollars based upon average exchange rates, which decreased 11 per cent in 2000.

(2) Economic interest at Pargesa level, taking into consideration for RTL Group all shares including those under option.

(3) Reported in 1999 the contribution of CLT-UFA and in 2000 the contribution of CLT-UFA for the first half of the year and of RTL Group for the second half.

Statement of Corporate Governance Practices

Power Corporation believes in the importance of good corporate governance and the central role played by directors in the governance process. The Board of Directors recognizes the utility of sharing this belief with its shareholders. The Board is responsible for, and takes this opportunity to expand on, Power's corporate governance philosophy and practices.

Power Corporation is an international management and holding company. It has had controlling shareholders since its beginnings in 1925. Its present controlling shareholder has held control since 1968 and today holds in the aggregate, directly or indirectly, or holds voting power over, shares carrying approximately 65 per cent of the votes. Power Corporation is not an operating company and over half of its interests are located outside Canada, specifically in the United States, Europe and Asia. These characteristics are important in any consideration of governance issues as they apply to the Corporation.

There exist many models of corporate ownership and governance, including widely held and closely held companies and including boards composed largely of "related" directors and boards composed almost entirely of "unrelated" directors. It is our belief that no single corporate governance model is superior or appropriate in all cases. The Board believes that the governance system in place at Power Corporation is appropriate and effective and that there are in place appropriate structures and procedures to ensure its independence from management.

The Board believes it is appropriate in a management and holding company such as Power Corporation, with a controlling shareholder, that the positions of the Chairman of the Board and Co-Chief Executive Officer overlap.

The Board and Board Committees

The directors supervise the management of the business and affairs of a corporation. In fulfilling that responsibility, Power Corporation's Board appoints senior executive management, provides advice to management from time to time, and assesses the ongoing progress of the Corporation and its subsidiaries. The Board and its committees review corporate plans and objectives. The objective of the Directors in performing these functions is to enhance shareholder value while acting in the long-term best interests of the Corporation. The Board believes that its present size is appropriate for effective decision-making.

A number of our Directors are active through committees of the Board. There are three such committees of Directors: the Executive Committee, the Audit Committee and the Compensation Committee. Committee membership is shown on page 58 of this annual report. The Board has the authority to establish additional committees of Directors and to determine their roles and responsibilities.

The Executive Committee meets when necessary in the interval between meetings of the full Board. It has all of the powers which, by law, may be delegated to it by the Board, but does not exercise those powers to make a significant decision that has not already been approved in principle by the full Board, except in a situation where immediate action is required. The activities and decisions of the Executive Committee are reported to the Board of Directors.

In the performance of its functions, the Audit Committee reviews with the Corporation's auditors the audited financial statements and reviews financial information to be included in public disclosure documents. It also reviews the nature and scope of the annual audit plan, and makes a recommendation to the Board regarding the appointment of auditors. The Committee communicates directly and, from time to time, meets privately with the Corporation's auditors. The role and responsibilities of the Committee have been defined by the Board.

The Compensation Committee reviews and establishes the compensation of the executive officers of the Corporation and of the members of the Board of Directors. In the performance of its functions the Committee reviews the performance of the executive officers and of the Corporation as a whole. It reviews, from time to time, the Corporation's compensation policy, its pension and retirement income policy and its benefits program as well as the compensation of directors. The Committee also administers the Corporation's Stock Option Plan. Also in the performance of its functions, the Committee consults with outside compensation experts. The Committee's role is more fully described in the Corporation's management proxy circular.

Any board responsibility or authority not delegated to senior management or a Board committee remains with the full Board.

Statement of Corporate Governance Practices

Composition of the Board and Board Committees

Nominees for election to the Board of Directors are chosen by the Board according to a variety of criteria including integrity and reputation, general knowledge and experience in a particular field of interest. The Corporation believes that a diversity of views and experience enhance the ability of the Board as a whole to fulfill its responsibilities to the Corporation. Directors are not required to be specialists in the affairs of the Corporation or the industries in which it invests but are expected to provide the Corporation with the benefit of their domestic or international business experience, their judgment and their vision. The Corporation provides an orientation program for newly elected directors. The Board nomination function is performed by the Board as a whole.

A majority of the Corporation's Directors are considered to be unrelated to Power Corporation. In addition, a number of Directors are free from any interest in, or relationships with, either Power Corporation or its controlling shareholder. In light of the obligations and duties falling upon directors, Power Corporation does not believe that whether a director is related or unrelated is an essential criterion for effective board participation. All of Power Corporation's Directors, whether related or not, bring to the Corporation an interest in and knowledge of the affairs of the Corporation and its affiliated companies, which is a benefit to Power Corporation and its shareholders.

The Audit and Compensation Committees are composed entirely of outside, unrelated Directors. The Executive Committee includes a majority of outside and unrelated Directors.

Committees may, at Power Corporation's expense, retain such professional advisers as the Committees deem appropriate for the purpose of carrying out their duties and responsibilities.

In addition to its Board of Directors, the Corporation benefits from the counsel and international experience of prominent individuals from around the world who are members of its International Advisory Council.

Communications Policy

The Corporation has adopted policies respecting communications with its shareholders and others. Management is available to shareholders to respond to questions and concerns on a prompt basis, subject to the limitations imposed by law and the sensitivity of certain information relating to the Corporation. Members of management meet from time to time with institutional and other investors. The Corporation also communicates with its shareholders through a variety of other means, including its annual reports, quarterly reports and news releases. The Corporation maintains a website at www.powercorp.com, updated with current corporate information and interlinked to the websites of group companies.

Statutory disclosure documents such as management information circulars and annual information forms are reviewed, and where required, approved by the Board. At the Corporation's annual meetings, an opportunity is afforded to shareholders to question senior management. The Board believes that the Corporation's communications with its shareholders and the avenues available for shareholders and others interested in the Corporation to make inquiries about the Corporation are responsive and effective.

Power Corporation of Canada

Consolidated Balance Sheets as at December 31 (in millions of dollars)

	2000	1999
Assets		
Cash and cash equivalents	2,024	1,905
Investments (Note 2)		
Shares	2,301	1,742
Bonds	30,400	30,471
Mortgages and other loans	14,586	14,413
Real estate	1,218	1,120
	48,505	47,746
Investment in affiliate, at equity (Note 3)	1,296	1,251
Other assets (Note 4)	8,739	7,006
	60,564	57,908
Liabilities		
Policy liabilities		
Actuarial liabilities (Note 5)	41,567	40,036
Other	3,532	3,397
Deposits and certificates	219	307
Long-term debt (Note 6)	1,026	985
Other liabilities (Note 7)	4,805	4,312
	51,149	49,037
Non-controlling interests (Note 8)	5,477	5,421
Shareholders' Equity		
Stated capital (Note 9)		
Non-participating shares	211	215
Participating shares	353	350
Retained earnings	3,239	2,773
Foreign currency translation adjustments	135	112
	3,938	3,450
	60,564	57,908

Approved by the Board of Directors



Director



Director

Power Corporation of Canada

Consolidated Statements of Earnings for the years ended December 31 (in millions of dollars, except per share amounts)

	2000	1999
Revenues		
Premium income	9,976	8,526
Investment income	3,975	3,795
Fees and media income	2,955	2,430
	16,906	14,751
Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	11,374	9,936
Commissions and operating expenses	3,711	3,270
Interest expense	80	91
	15,165	13,297
	1,741	1,454
Share of earnings of affiliate (Note 3)	44	46
Other income, net (Note 11)	209	207
Earnings before income taxes and non-controlling interests	1,994	1,707
Income taxes (Note 12)	755	547
Non-controlling interests (Note 8)	582	627
Net earnings	657	533
Earnings per participating share	2.93	2.36

Consolidated Statements of Retained Earnings for the years ended December 31 (in millions of dollars)

	2000	1999
Retained earnings, beginning of year		
As previously reported	2,773	2,402
Change in accounting policies (Note 1)	(41)	
	2,732	2,402
Add		
Net earnings	657	533
	3,389	2,935
Deduct		
Dividends		
Non-participating shares	12	8
Participating shares	127	108
Premium on repurchase of participating shares (Note 9)	20	33
Other	(9)	13
	150	162
Retained earnings, end of year	3,239	2,773

Consolidated Statements of Cash Flows for the years ended December 31 *(in millions of dollars)*

	2000	1999
Operating activities		
Net earnings	657	533
Non-cash charges (credits)		
Increase (decrease) in policy liabilities	969	(192)
Decrease (increase) in funds withheld by ceding insurers	(1,129)	(252)
Amortization and depreciation	108	95
Future income taxes	(140)	(54)
Non-controlling interests	582	627
Other	(546)	(395)
Cash from operating activities	501	362
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(246)	(221)
Non-participating shares	(11)	(6)
Participating shares	(127)	(108)
	(384)	(335)
Acquisition of participating shares for cancellation	(22)	(35)
Issue of subordinate voting shares	4	1
Issue of non-participating shares		150
Repurchase of non-participating shares for cancellation	(4)	(4)
Issue of common shares by subsidiaries	12	6
Issue of preferred shares by a subsidiary		200
Repurchase of preferred shares by a subsidiary		(200)
Repurchase of common shares by subsidiaries	(97)	(38)
Issue of subordinated capital income securities		252
Issue of long-term debt, commercial paper and other loans	431	
Repayment of long-term debt, commercial paper and other loans	(101)	(285)
Increase in demand deposits	17	11
Decrease in term deposits	(94)	(58)
Decrease in certificates	(11)	(17)
Other	(1)	(16)
	(250)	(368)
Investment activities		
Bond sales and maturities	16,240	18,595
Mortgage loan repayment	3,840	3,995
Sale of shares	784	286
Real estate sales	41	39
Change in loans to policyholders	(267)	201
Change in repurchase agreements	(119)	(243)
Investment in subsidiaries	(218)	(39)
Investment in bonds	(15,545)	(19,282)
Investment in mortgage loans	(3,563)	(3,018)
Investment in shares	(1,205)	(450)
Investment in real estate	(121)	(89)
Other	1	(62)
	(132)	(67)
Increase (decrease) in cash and cash equivalents	119	(73)
Cash and cash equivalents, beginning of year	1,905	1,978
Cash and cash equivalents, end of year	2,024	1,905
Supplementary cash flow information		
Income taxes paid	711	391
Interest paid	67	91

Notes to Consolidated Financial Statements

Note 1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation and its subsidiaries. The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. The reported amounts and note disclosures are determined using Management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates.

The principal operating subsidiaries of the Corporation are: Power Financial Corporation ("Power Financial") (interest of 67.4%), Gesca Ltée (interest of 100%) and Power Technology Investment Corporation (formerly Power Broadcasting Inc. [PBI] – interest of 100%). Power Financial holds Great-West Lifeco Inc. ("Lifeco") (direct interest of 77.2%, 1999 – 76.6%), which holds 100% of the common shares of Great-West Life & Annuity Insurance Company ("GWL&A") and 100% of the common shares of The Great-West Life Assurance Company ("Great-West"), which in turn holds 100% of the common shares of London Insurance Group Inc. ("LIG"), which in turn holds 100% of London Life Insurance Company and Investors Group Inc. ("Investors Group") (interest of 67.9%, 1999 – 67.7%) which holds 4.4% (1999 – 4.3%) of the common shares of Lifeco.

The Corporation accounts for its investments in its affiliate using the equity method. Investments in joint ventures that are jointly controlled are consolidated on a proportionate basis.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities.

Investments

Investments, other than those held by Lifeco are accounted for as follows:

Investments in shares are carried at cost; where there has been a loss in value that is other than a temporary decline, a write-down is made to recognize the loss. Bonds, mortgages and other loans are valued at amortized cost plus accrued interest less provisions for losses. Real estate investments are valued at cost less provisions for losses.

Investments held by Lifeco are accounted for as follows:

Investments in shares (equity securities) are carried at cost plus a moving average market value adjustment of \$38 million (1999 – \$13 million). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings at 15% per annum on a declining balance basis. Market values for public shares are generally determined by the closing sale price of the security on the exchange where it is principally traded.

Market values for shares for which there is no active market are determined by management.

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$54 million (1999 – \$39 million). The carrying value is adjusted towards market value at a rate of 10% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings at 10% per annum on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by qualified appraisers.

Other loans, which include loans to policyholders, are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

Actuarial liabilities

Actuarial liabilities of Lifeco represent the amount which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, annuity liabilities and London Life Insurance Company's group life and health claim liabilities have been established using cash flow valuation techniques. All other actuarial liabilities have been determined using the policy premium method.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the actuarial liabilities are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Goodwill

Goodwill, being the difference between the cost of the investment in subsidiary and affiliated corporations and the fair value of the underlying net assets at the dates of acquisition, is being amortized over periods not exceeding forty years using the straight-line method. The Corporation reviews the carrying value of goodwill

Notes to Consolidated Financial Statements

Note 1. **Summary of significant accounting policies** (continued)

to determine if it has been permanently impaired in value by conditions affecting subsidiary and affiliated corporations, using projections of future earnings and cash flow of the related subsidiary and affiliated corporations. Management is of the opinion that there has been no reduction in the value assigned to goodwill.

Stock based compensation plans

The Corporation has a stock option plan, which is described in Note 9. No compensation expense is recognized for this plan when stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. Compensation expense is recognized for the Corporation's contributions to the employee share purchase program.

Repurchase agreements

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

Derivative financial instruments

The Corporation uses derivative products as risk management instruments to hedge or manage asset and liability positions including revenues within guidelines which prohibit their use for speculative purposes.

The accounting policies used for derivative financial instruments held for hedging purposes correspond to those of the underlying hedged position.

Foreign currency translation

All assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. All income and expenses are translated at average rates prevailing during the year. Exchange gains and losses are included in earnings except those related to self-sustaining operations and financing related thereto which are deferred in the shareholders' equity section of the balance sheet.

Pension plans and other post-retirement benefits

The Corporation maintains defined-benefit pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension charge or credit consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the funding excess or deficiency of the plan, and the amortization of experience gains or losses over the expected average remaining service life of employees. Plan assets

are valued at market value for purposes of calculating the expected long-term rate of return.

The Corporation also has an unfunded supplementary pension plan for certain executives. Pension expense related to current services are charged to income in the period during which the services are rendered.

The Corporation also provides certain post-retirement health care and life insurance benefits to eligible retirees, agents and their dependants. In prior years, the cost of providing these benefits was expensed as incurred. Effective January 1, 2000, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 – Employee Future Benefits which require that post-retirement benefits other than pensions be accrued over the periods of employee service similar to pension cost. The Corporation applied the standard retroactively with no restatement of prior periods. The cumulative effect of adopting the new recommendations was to increase Other liabilities by \$124 million, increase prepaid pension assets (included with Other assets) by \$8 million, increase future income taxes (included with Other assets) by \$46 million, decrease Non-controlling interests by \$29 million, and decrease Opening retained earnings by \$41 million.

Income taxes

On January 1, 2000, the Corporation adopted the recommendations of CICA Handbook Section 3465 – Income taxes. The adoption of Section 3465 results in the use of the liability method of tax allocation whereby future income taxes represent temporary differences between the tax basis of assets and liabilities and their carrying value for accounting purposes. In addition, the liability method requires all future income tax assets and liabilities to be measured at the tax rate that is expected to apply when the temporary differences reverse.

The adoption of the standard, which was applied retroactively with no restatement of prior periods, did not have a significant effect on the Corporation's consolidated financial statements.

Future accounting policies

In December 2000, the CICA issued a revised Handbook Section 3500 – Earnings per share, which changes the measurement and reporting of earnings per share. Effective for fiscal years beginning on or after January 1, 2001, the revised Handbook section requires the presentation of both basic and diluted earnings per share directly on the income statement regardless of the materiality of the difference between them. In addition, the Corporation will be required to use the treasury stock method to calculate the dilution effect of stock options, warrants and similar instruments as opposed to the imputed earnings approach.

Comparative figures

Certain of the 1999 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

Power Corporation of Canada

Notes to Consolidated Financial Statements

Note 2. Investments

	Carrying value			Estimated market value
	Held by Lifeco	Held by the Corporation and other subsidiaries	Total	
	Millions			
	\$	\$	\$	\$
December 31, 2000				
Shares	1,133	1,168	2,301	2,896
Bonds	30,326	74	30,400	30,555
Mortgages and other loans	14,370	216	14,586	14,911
Real estate	1,212	6	1,218	1,429
	47,041	1,464	48,505	49,791
December 31, 1999				
Shares	809	933	1,742	2,126
Bonds	30,397	74	30,471	29,665
Mortgages and other loans	14,104	309	14,413	14,528
Real estate	1,106	14	1,120	1,285
	46,416	1,330	47,746	47,604

Investment income includes the amortization of net deferred realized gains on portfolio investments sold and of net unrealized gains on shares and real estate investment of \$244 million (1999 – \$234 million).

Term to maturity and interest rate range of bonds and mortgage loans

	1 year or less	1–5 years	Over 5 years	Total	Effective interest rate ranges
December 31, 2000	Millions				
	\$	\$	\$	\$	%
Bonds	2,878	8,732	18,790	30,400	1.5-14.5
Mortgage loans	2,152	3,758	3,093	9,003	4.0-14.5
December 31, 1999					
	\$	\$	\$	\$	%
Bonds	2,902	8,633	18,936	30,471	2.7-15.0
Mortgage loans	1,943	4,479	2,829	9,251	4.0-13.8

Other loans, included in mortgages and other loans on the consolidated balance sheet, consist of loans to policyholders amounting to \$5,583 million (1999 – \$5,162 million), and have no fixed term. They have effective interest rates ranging from 5% to 9% (1999 – 5% to 8%).

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

Included in investments are the following:

Impaired loans:

	Millions	
	2000	1999
	\$	\$
Mortgage loans	30	80
Foreclosed real estate	7	17
Bonds	36	
	73	97

Impaired loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine impaired status. Loans are classified as non-accrual when:

- (1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- (2) the Corporation no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or
- (3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

Allowance for credit losses:

	Millions	
	2000	1999
	\$	\$
Bonds	28	21
Mortgage loans	127	165
Foreclosed real estate		1
	155	187

Changes in the allowance for credit losses:

	Millions	
	2000	1999
	\$	\$
Balance, beginning of year	187	210
Provision for credit losses	(16)	(17)
Recoveries	10	11
Write-offs	(64)	(9)
Other	38	(8)
Balance, end of year	155	187

The allowance for credit losses includes general provisions, established at a level that together with the provision for future credit losses included in actuarial liabilities, reflects Lifeco's and Investors Group's estimates of potential future credit losses.

Investments in real estate include an asset value allowance which provides for deterioration of market values associated with real estate held for investment amounting to \$31 million (1999 – \$34 million).

Also included in mortgages and other loans are modified/restructured loans that are performing in accordance with their current terms amounting to \$298 million (1999 – \$333 million).

Power Corporation of Canada

Notes to Consolidated Financial Statements

Note 3. Investment in affiliate, at equity (a)

	Millions	
	2000	1999
	\$	\$
Carrying value, January 1	1,251	1,240
Share of earnings	44	46
Share of gains on disposal of long-term investments, net (b)	60	235
Foreign currency translation adjustments	(30)	(227)
Amortization of goodwill	(3)	(3)
Dividends	(29)	(32)
Other, net	3	(8)
Carrying value, December 31	1,296	1,251
Share of equity, December 31	1,279	1,225

a) Parjointco N.V., 50% held by Power Financial, held a voting interest of 61.4% (1999 – 61.1%) and an equity interest of 54.7% (1999 – 54.4%) in Pargesa Holding S.A.

b) After deduction of goodwill associated with investments sold in 1999.

Note 4. Other assets

	Millions	
	2000	1999
	\$	\$
Funds withheld by ceding insurers	3,555	2,426
Goodwill, net of accumulated amortization	1,812	1,782
Dividends and interest receivable	640	622
Premiums in course of collection	606	425
Future income taxes	382	193
Other, including fixed assets, net of accumulated depreciation	1,744	1,558
	8,739	7,006

Note 5. Actuarial liabilities

	Millions	
	2000	1999
The composition of actuarial liabilities is as follows:		
	\$	\$
Group insurance	2,633	2,575
Individual insurance and investment	16,062	16,221
Reinsurance	4,911	4,405
Property and casualty	18	12
Employee benefits	823	726
Financial services	17,120	16,097
	41,567	40,036

Notes to Consolidated Financial Statements

Note 6. Long-term debt

	Millions	
	2000	1999
	\$	\$
Power Financial Corporation		
Exchangeable debentures, due April 30, 2014 (i)	105	167
7.65% debentures due January 5, 2006 (ii)	150	150
Investors Group Inc.		
6.65% debentures 1997 Series, due December 13, 2027	125	125
Great-West Lifeco Inc.		
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2014	158	155
9.375% senior debentures, repaid in 2000		100
7.25% subordinated capital income securities redeemable by Lifeco on or after June 30, 2004, due June 30, 2048, unsecured (US\$175 M)	263	252
6.75% debentures due August 10, 2015, unsecured	200	
Other notes payable at interest rates from 4.3% to 9.0%	25	36
	1,026	985

i) Exchangeable debentures, due April 30, 2014, bear interest at an annual rate equal to the dividend received on common shares of BCE Inc., and Nortel Networks Corporation ("Nortel") divided by the cost of the debentures, plus 1%. The debentures are redeemable prior to maturity at the option of Power Financial at a price equal to the principal amount together with accrued and unpaid interest; the redemption price may be satisfied by the delivery of up to 5,465,743 common shares of BCE Inc. and 8,583,327 common shares of Nortel or cash, at the debenture holders' option. The BCE Inc. and Nortel common shares are included in Investments – Shares at a cost of \$103 million.

ii) These debentures were effectively converted into a Swiss franc denominated debt (SF 127,518,490) bearing interest at 4.43% payable semi-annually through a ten-year cross-currency swap expiring in 2006. The carrying value of this swap is included in Other assets.

Interest expense on long-term debt amounted to \$70 million (1999 – \$72 million).

The maximum aggregate amount of principal payments on long-term debt in each of the next five years is as follows: \$5 million in 2001; \$46 million in 2002; \$65 million in 2003; \$27 million in 2004; and \$16 million in 2005.

Note 7. Other liabilities

	Millions	
	2000	1999
	\$	\$
Accounts payable and accrued liabilities	2,429	2,409
Net deferred gains on portfolio investments sold (a)	1,095	1,189
Income taxes payable	639	441
Commercial paper and other loans	386	147
Other post-retirement benefits	245	
Repurchase agreements		116
Dividends and interest payable	10	10
	4,805	4,312

Notes to Consolidated Financial Statements

Note 7. Other liabilities (continued)

(a) The balance of net deferred gains on portfolio investments sold comprises the following:

	Millions	
	2000	1999
	\$	\$
Shares	473	425
Bonds	560	705
Mortgage loans	47	47
Real estate	15	12
	1,095	1,189

Note 8. Non-controlling interests

	Millions	
	2000	1999
	\$	\$
Non-controlling interests include:		
Participating policyholders	1,444	1,412
Preferred shareholders of subsidiaries	1,557	1,780
Common shareholders of subsidiaries	2,476	2,229
	5,477	5,421
Earnings attributable to non-controlling interests include:		
Earnings attributable to participating policyholders	27	83
Dividends to preferred shareholders of subsidiaries	96	98
Earnings of subsidiaries attributable to common shareholders	459	446
	582	627

Notes to Consolidated Financial Statements

Note 9. Stated capital

	Millions	
	2000	1999
	\$	\$
Non-participating shares		
Cumulative Redeemable First Preferred Shares, 1986 Series (i)		
Authorized – Unlimited number of shares		
Issued – 1,219,878 (1999 – 1,299,878) shares	61	65
Series A First Preferred Shares (ii)		
Authorized – 6,000,000 shares		
Issued – 6,000,000 shares	150	150
	211	215
Participating shares		
Participating Preferred Shares (iii) (vi)		
Authorized – Unlimited number of shares		
Issued – 24,427,386 shares	27	27
Subordinate Voting Shares (iv) (v) (vi) (vii) (viii) (ix)		
Authorized – Unlimited number of shares		
Issued – 195,959,622 (1999 – 196,516,872) shares	326	323
	353	350

- i) Entitled to a quarterly cumulative dividend of one quarter of 70% of the prime rate of two major Canadian chartered banks. The shares are redeemable by the Corporation at \$50 per share. The Corporation will make all reasonable efforts to purchase, on the open market, 20,000 shares per quarter, such number being cumulative only in the same calendar year. During the calendar year, 80,000 shares (1999 – 80,000) were purchased for cancellation for \$4 million (1999 – \$4 million).
- ii) In 1999, the Corporation issued 6,000,000 5.60% Non-Cumulative First Preferred Shares, Series A for cash proceeds of \$150 million. The 5.60% Non-Cumulative First Preferred Shares, Series A are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.40 per share per annum. On and after June 11, 2004 the Corporation may redeem for cash the Series A First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed on or prior to June 11, 2005, \$25.75 if redeemed thereafter and on or prior to June 11, 2006, \$25.50 if redeemed thereafter and on or prior to June 11, 2007, \$25.25 if redeemed thereafter and on or prior to June 11, 2008 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to the date of redemption.
- iii) Entitled to ten votes per share; entitled to a non-cumulative dividend of 1%¢ per share per annum before dividends on the subordinate voting shares and having the right to participate, share and share alike, with the holders of the subordinate voting shares in any dividends in any year after payment of a dividend of 1%¢ per share on the subordinate voting shares.
- iv) Entitled to one vote per share.

- v) In 2000, 1,030,500 subordinate voting shares (1999 – 1,509,100) were purchased for cancellation pursuant to the Corporation's normal course issuer bid for a total expenditure of \$22 million (1999 – \$35 million). The excess of the consideration paid over the stated value of the shares has been charged to retained earnings in the amount of \$20 million (1999 – \$33 million).
- vi) The average number of participating shares outstanding during the year was 220,155,536 (1999 – 222,059,572).
- vii) The Corporation established a deferred share unit plan for the directors of the Corporation. Under this plan, each director may elect to receive his or her annual retainer and attendance fees, entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Subordinate Voting Shares of the Corporation on the last five days of the fiscal quarter (the "value of a deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Subordinate Voting Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable at the time a director's membership on the Board is terminated or in the event of the death of a director by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2000, the value of deferred share units outstanding was \$0.1 million.

Notes to Consolidated Financial Statements

Note 9. Stated capital (continued)

viii) Effective May 1, 2000, an Employee Share Purchase Program ("ESPP") was implemented, giving employees the opportunity to subscribe for up to 6 per cent of their gross salary to purchase Subordinate Voting Shares of the Corporation on the open market and to have the Corporation invest, on the employee's behalf, a further amount. The amount paid on behalf of employees was \$ 0.4 million in 2000.

ix) Under the Corporation's Executive Stock Option Plan established on March 8, 1985, 9,699,580 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Options have a term of ten years and may be exercised as follows: 50% one year after the grant date, 75% two years after the grant date and 100% three years after the grant date except for a grant of 25,000 options in 1999 which will become fully vested in 2004 and a grant of 100,000 options in 2000 which became fully vested at the date of the grant.

A summary of the status of the Corporation's stock option plan as at December 31, 2000 and 1999, and changes during the years ended on those dates is as follows:

	2000		1999	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding at beginning of year	7,485,830	13.91	7,539,180	13.73
Granted	1,543,350	22.73	74,000	25.73
Exercised	(473,250)	8.73	(127,350)	10.13
Outstanding at end of year	8,555,930	15.79	7,485,830	13.91
Options exercisable at end of year	6,656,580	13.50	6,580,080	12.10

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise prices	Options outstanding			Options exercisable	
	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
			\$		\$
7.28 – 12.00	5,002,580	4.0	9.81	5,002,580	9.81
12.00 – 16.00	310,000	5.9	14.20	310,000	14.20
20.00 – 24.00	1,543,350	9.3	22.73	100,000	22.73
24.00 – 27.43	1,700,000	7.3	27.36	1,244,000	27.41
	8,555,930	5.7	15.79	6,656,580	13.50

Notes to Consolidated Financial Statements

Note 10. Pension plans and other post-retirement benefits

The following disclosures for 2000 reflect the new recommendations of the CICA for pension and other post-retirement benefits (Note 1). The Corporation maintains funded defined benefit pension plans for certain of its employees and agents as well as

unfunded supplementary employee retirement plans ("SERP") for certain executives. The Corporation also provides post-retirement health and life insurance benefits to eligible retirees, agents and their dependants.

	Millions	
	Pension plans	Other benefits
	\$	\$
Fair value of plan assets		
Balance, beginning of year (as restated)	1,949	
Employee contributions	10	
Employer contributions	7	
Benefits paid	(111)	
Return on plan assets	188	
Foreign exchange	11	
Balance, end of year	2,054	
Accrued benefit obligation		
Balance, beginning of year (as restated)	1,679	252
Benefits paid	(116)	(10)
Current service cost	49	11
Employee contributions	10	
Interest cost	119	17
Experience (gain) loss	28	(7)
Foreign exchange	9	2
Balance, end of year	1,778	265
Funded status		
Fund surplus (deficit)	277	(265)
Unamortized net experience gains	(232)	(1)
Unamortized net (asset) obligation at transition	(8)	20
Valuation allowance	(21)	
Accrued asset (liability)	16	(246)
Charge (credit) was determined as follows		
Current service cost	49	11
Interest cost	119	17
Expected return on plan assets	(155)	
Amortization of net experience gains	(19)	
Amortization of net (asset) obligation at transition	(5)	1
Valuation allowance	4	
	(7)	29
Significant weighted average actuarial assumptions		
Discount rate	6.93%	7.09%
Expected long-term rate of return on plan assets	7.97%	
Rate of compensation increase	4.99%	

In determining the expected cost of health care benefit plans, it was assumed that health care costs would increase in 2000 by 7.25% to 10% in Canada and by 10% in the United States. It is assumed that these rates would gradually decrease to a level of 4.5% by 2005 in Canada and to a level of 6.5% by 2009 in the United States.

As at December 31, 1999, the present value of the accrued pension obligations was \$1,594 million and the approximate present value of the pension fund assets available to meet these obligations was \$1,943 million. The actuarially determined obligations of the unfunded supplementary employee retirement plans as at December 31, 1999, were \$56 million.

Notes to Consolidated Financial Statements

Note 11. Other income, net

	Millions	
	2000	1999
	\$	\$
Share of Pargesa's gains on disposal of long-term investments, net	60	235
Gain on disposal of broadcasting assets (a)	149	
Other		(28)
	209	207

(a) During the year PBI sold all of its broadcasting assets for proceeds of \$192 million.

Note 12. Income taxes

The following disclosures for 2000 reflect the new recommendations of the CICA for income taxes (Note 1). As permitted under the new recommendations, prior year amounts have not been

restated. The terminology used to describe comparative figures is consistent with the terminology used to describe current year amounts calculated using the liability method of tax allocation.

	2000	1999
Combined basic Canadian federal and provincial tax rate	43.4%	44.6%
Dividend income	(1.5)	(1.8)
Equity in net earnings of affiliate	(2.3)	(7.0)
Lower effective tax rates on income not subject to tax in Canada	(3.0)	(4.1)
Decrease in income tax rate resulting from prior years' adjustments	(1.9)	(1.9)
Miscellaneous including Large Corporations Tax	3.2	2.2
	37.9%	32.0%

	2000	1999
Components of income tax expense are:		
Current income taxes	895	601
Future income taxes	(140)	(54)
	755	547

	2000	1999
Future income taxes consist of the following temporary differences:		
Policy liabilities	105	46
Portfolio investments	294	168
Loss carry forwards	38	51
Other	(55)	(72)
	382	193

As at December 31, 2000, the Corporation's subsidiaries have available non-capital tax loss carry forwards of approximately \$125 million, expiring at various dates to 2007. In addition, a subsidiary has capital loss carry forwards that can be used indefi-

nitely to offset future capital gains of approximately \$33 million. A future tax asset of \$38 million has been recognized in respect of these losses.

Notes to Consolidated Financial Statements

Note 13. Fair value of financial instruments and risk management

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and best evidenced by a quoted market price, if one

exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

Millions				
	2000		1999	
	Book value	Fair value	Book value	Fair value
Assets	\$	\$	\$	\$
Cash and cash equivalents	2,024	2,024	1,905	1,905
Investments	47,287	48,362	46,626	46,319
Other financial assets	4,864	4,874	3,549	3,555
Total financial assets	54,175	55,260	52,080	51,779
Liabilities	\$	\$	\$	\$
Policy liabilities	45,099	46,106	43,433	43,447
Deposits and certificates	219	221	307	307
Long-term debt	1,026	1,021	985	941
Other financial liabilities	3,033	3,033	2,647	2,647
Total financial liabilities	49,377	50,381	47,372	47,342

Fair value is determined using the following methods and assumptions:

The fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and cash equivalents, dividends and interest receivable, and premiums in the course of collection.

Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

The fair value of policy liabilities is based on the fair value of the assets of Lifeco supporting them.

Deposit liabilities are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debt with similar terms and risks.

Notes to Consolidated Financial Statements

Note 13. Fair value of financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. For Lifeco, the valuation interest rate assumes a declining investment yield in order to incorporate reinvestment risk in the actuarial valuation.

Credit risk

Credit risk is managed through an emphasis of quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards. For Lifeco, projected investment returns are reduced to provide for future credit losses on currently held assets.

Reinsurance risk of Lifeco

Large amount claim risk for life and health insurance and property and casualty insurance is controlled by having reinsurance in place for claims over specified maximum benefit amounts (which vary by line of business) and by having consolidated catastrophic accident coverage in place covering up to \$200 million of claims from a single event.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Consequently, allowances are established for amounts deemed uncollectible. Lifeco evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by \$800 million (1999 – \$678 million).

Foreign exchange risk

If the assets backing actuarial liabilities and other activities are not matched by currency, changes in foreign exchange rates can expose the Corporation to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Corporation to modify an asset position to more closely match actual or committed liability currency.

The Corporation itself may have an exposure to foreign currency fluctuations on its foreign currency denominated cash and cash equivalents. Such foreign currency fluctuations and changes in the average yield would continue to affect the Corporation's income from cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Corporation will have difficulty in raising funds to meet commitments. The liquidity needs of the Corporation is closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between liability requirements and the yield of assets. Over 60% of policy liabilities are non-cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

Sensitivity of actuarial assumptions

The actuarial assumption most susceptible to change in the short term is future investment returns. Based on the projected cash flows of Lifeco as of December 31, 2000, the approximate after-tax impact of an immediate 1% increase in the general level of interest rates applied to actuarial liabilities and associated assets would be to increase the fair value of Lifeco's surplus by \$14 million. The impact of an immediate 1% decrease would be to decrease the fair value of its surplus by \$27 million.

Notes to Consolidated Financial Statements

Note 14 Off balance sheet financial instruments

The Corporation, in the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates and market risks, is party to various derivative financial instruments, the

notional amount of which is not recorded on the balance sheet. The following table summarizes the portfolio of off balance sheet financial instruments at December 31:

Millions						
2000	1 year or less	Notional Amount 1–5 years	Over 5 years	Total	Maximum credit risk	Total estimated fair value
	\$	\$	\$	\$	\$	\$
Interest rate contracts	692	2,937	536	4,165	31	19
Foreign currency contracts	1,018	909	658	2,585	70	1
Equity index contracts	139	96	96	331	87	82
Share options purchased	163	139		302	108	108
Share options written	220	175		395		(22)
	2,232	4,256	1,290	7,778	296	188

Millions						
1999	\$	\$	\$	\$	\$	\$
Interest rate contracts	603	2,353	227	3,183	15	(8)
Foreign currency contracts	928	213	576	1,717	91	57
Equity index contracts	101	157	95	353	108	84
Share options purchased	63	122		185	25	25
Share options written	76	145		221		(22)
	1,771	2,990	898	5,659	239	136

The amount subject to credit risk is limited to the current market value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation would receive (or pay) to terminate all agreements at year-end. However, this does not represent a

gain or loss to the Corporation as the hedged position is matched to certain of the Corporation's assets and liabilities. All counterparties are highly rated financial institutions on a diversified basis.

The fair value of derivative financial instruments is based on quoted market prices, when available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

Note 15. Contingent liabilities

The Corporation and its subsidiaries are subject to individual legal actions arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Corporation.

In addition, at December 31, 2000 there are three proposed class actions against Great-West (one in each of British Columbia, Ontario and Quebec), and five proposed class actions against London Life (three in Ontario, and one in each of British Columbia and Quebec) related to the availability of policyholder dividends to pay future premiums. There is also a proposed class

proceeding in Ontario against Lifeco, Great-West, London Insurance Group and London Life regarding the participation of the London Life Participating Policyholder account in the financing of the acquisition of London Insurance Group in 1997 by Great-West. The Courts have not yet decided whether any of these actions will proceed as a class action. These actions are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that any of these actions will have a material adverse effect on the consolidated financial position of the Corporation.

Notes to Consolidated Financial Statements

Note 16. Segmented information

The following strategic business units constitute the Corporation's reportable operating segments:

Great-West Lifeco Inc. offers, through Great-West and LIG in Canada and GWL&A in the United States, a wide range of life insurance, health insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.

Investors Group Inc. offers a comprehensive package of financial planning services and investment products to its client base. Investors Group derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. Investors Group also earns revenue from fees charged to its mutual funds for administrative services.

Parjointco N.V. holds the Corporation's interest in Pargesa Holding S.A., a holding company which holds diversified interests in a limited number of major communications, specialty minerals and utility energy, companies based in Europe.

Other is made up of corporate activities of the Corporation, Power Financial, Gesca Ltée and Power Technology Investment Corporation. Other also includes consolidated adjustments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates the performance based on stand-alone operating segment net earnings adjusted, for example, for specific items arising from the consolidation process. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

Information on profit measure

	Millions				
December 31, 2000	Lifeco	Investors	Parjointco	Other	Total
Revenues	\$	\$	\$	\$	\$
Premium income	9,976				9,976
Net investment income	3,649	142		184	3,975
Fees and media income	1,641	1,076		238	2,955
	15,266	1,218		422	16,906
Expenses					
Insurance claims	11,374				11,374
Commissions, other operating expenses	2,704	691		316	3,711
Interest expense		21		59	80
	14,078	712		375	15,165
	1,188	506		47	1,741
Share of earnings of affiliate			44		44
Other income – net			60	149	209
Earnings before income taxes and non-controlling interest	1,188	506	104	196	1,994
Income taxes	451	222		82	755
Non-controlling interests	404	150	34	(6)	582
Contribution to consolidated net earnings	333	134	70	120	657

Information on asset measure

	Millions				
December 31, 2000	Lifeco	Investors	Parjointco	Other	Total
Total assets	\$ 55,754	\$ 1,691	\$ 1,296	\$ 1,823	\$ 60,564
Assets under administration	37,159	44,498			81,657

Notes to Consolidated Financial Statements

Note 16. Segmented information (continued)

Information on profit measure		Millions			
December 31, 1999	Lifeco	Investors	Parjointco	Other	Total
Revenues	\$	\$	\$	\$	\$
Premium income	8,526				8,526
Net investment income	3,580	121		94	3,795
Fees and media income	1,222	940		268	2,430
	13,328	1,061		362	14,751
Expenses					
Insurance claims	9,936				9,936
Commissions, other operating expenses	2,334	613		323	3,270
Interest expense		34		57	91
	12,270	647		380	13,297
	1,058	414		(18)	1,454
Share of earnings of affiliate			46		46
Other income – net			235	(28)	207
Earnings before income taxes and non-controlling interest	1,058	414	281	(46)	1,707
Income taxes	366	178		3	547
Non-controlling interests	415	125	91	(4)	627
Contribution to consolidated net earnings	277	111	190	(45)	533

Information on asset measure		Millions			
December 31, 1999	Lifeco	Investors	Parjointco	Other	Total
	\$	\$	\$	\$	\$
Total assets	53,512	1,532	1,251	1,613	57,908
Assets under administration	33,728	40,650			74,378

Geographic information		Millions			
December 31, 2000	Canada	United States	Europe	Total	
	\$	\$	\$	\$	\$
Revenues	10,797	6,109			16,906
Investment in affiliate, at equity			1,296		1,296
Goodwill	1,735	77			1,812
Total assets	36,641	22,627	1,296		60,564
Assets under administration	63,180	18,477			81,657
December 31, 1999					
Revenues	9,660	5,091			14,751
Investment in affiliate, at equity			1,251		1,251
Goodwill	1,746	36			1,782
Total assets	35,678	20,979	1,251		57,908
Assets under administration	56,380	17,998			74,378

Notes to Consolidated Financial Statements

Note 17. Acquisitions

- (a) On October 6, 1999, GWL&A entered into a purchase and sale agreement (the Agreement) with Allmerica Financial Corporation (Allmerica) to acquire via assumption reinsurance Allmerica's group life and health insurance business on March 1, 2000. This business primarily consists of administrative services only and stop loss policies. The inforce business was immediately coinsured back to Allmerica and is expected to be underwritten and retained by GWL&A upon each policy renewal date. The effect of this transaction was not material to GWL&A's results of operations or financial position.
- (b) Effective January 1, 2000, GWL&A coinsured the majority of General American Life Insurance Company's (General American) group life and health insurance business which primarily consists of administrative services only and stop loss

policies. The agreement converted to an assumption reinsurance agreement January 1, 2001. GWL&A assumed approximately \$225 million of policy reserves and miscellaneous liabilities in exchange for \$225 million of cash and miscellaneous assets from General American.

- (c) On April 7, 2000, Pargesa Holding S.A.'s affiliates, Groupe Bruxelles Lambert S.A. (GBL) and Electrafina S.A., Bertelsmann AG of Germany and Pearson plc of England announced that they had agreed to merge CLT-UFA and Pearson Television into Audiofina S.A. Following the completion of the merger, which became effective in July 2000, Audiofina S.A., which was renamed RTL Group, became the parent company of the new group with GBL/Electrafina S.A. holding a 30 per cent interest in RTL Group.

Note 18. Subsequent events

- (a) On January 26, 2001, Investors Group entered into a definitive agreement with Mackenzie Financial Corporation (Mackenzie) under which it has offered to acquire all of the shares of Mackenzie for a total consideration of \$4.149 billion, or \$30.00 per share. The total consideration is payable in a combination of cash and common shares of Investors Group based on an exchange ratio of 1.2 of Investors Group's shares for each Mackenzie share, being an issue price of \$25.00 per share, or in any combination thereof subject to a maximum cash consideration of \$3.181 billion and a maximum of 38,720,011 shares of Investors Group.

The transaction is expected to be financed as follows:
(\$ millions)

Cash	1,303
Issue of common shares to affiliates	368
Issue of long-term debt and preferred shares	1,510
Cash consideration	3,181
Value of share exchange	968
Total consideration	4,149

Great-West Life participated in the offer by undertaking to invest \$230 million to acquire 9,200,000 treasury common shares of Investors Group. Power Financial Corporation committed to invest up to \$138 million in treasury common shares of Investors Group in support of the transaction.

Subject to regulatory approval and acceptance by Mackenzie shareholders, the transaction is expected to be completed in the second quarter of 2001. The transaction will be accounted for using the purchase method and the excess of the purchase price over the estimated fair value of the net tangible assets acquired will be allocated firstly to identifiable intangible assets and the residual excess to goodwill.

- (b) Also in January 2001, Gesca finalized the acquisition from Hollinger Canadian Newspapers of Unimédia. At the same time, Gesca announced the sale of all of its 24 weekly newspapers to G.T.C. Transcontinental Group.
- (c) On February 5, 2001, Power Financial and the Frère group announced that GBL and Bertelsmann had agreed to a share exchange of GBL's 30 per cent interest in the RTL Group for a 25 per cent interest in Bertelsmann, the holding company of the Bertelsmann group. Bertelsmann will, as a result, increase its interest in RTL Group to 67 per cent.
- (d) On March 13, 2001, GBL and Electrafina, a holding company in which GBL has an 82.8 per cent interest, announced that they will submit to their respective shareholders an amalgamation proposal in April.

Auditors' Report

We have audited the consolidated balance sheets of Power Corporation of Canada as at December 31, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are

free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Montréal, Québec
March 30, 2001

Deloitte & Touche LLP

Power Corporation of Canada

Five-Year Financial Statistics December 31

	Millions				
	2000	1999	1998	1997	1996
	\$	\$	\$	\$	\$
Consolidated balance sheets					
Cash and cash equivalents	2,024	1,905	1,978	1,914	1,322
Consolidated assets	60,564	57,908	58,925	55,849	32,133
Shareholders' equity	3,938	3,450	3,145	2,640	2,463
Consolidated assets and assets under administration	142,221	132,286	123,383	111,490	70,386
Consolidated statements of earnings					
Revenues					
Premium income	9,976	8,526	9,237	4,587	3,532
Investment income	3,975	3,795	3,698	2,361	2,213
Fees and media income	2,955	2,430	2,120	1,678	1,347
	16,906	14,751	15,055	8,626	7,092
Expenses					
Paid or credited to policyholders	11,374	9,936	10,680	5,723	4,614
Operating expenses	3,711	3,270	3,049	2,077	1,739
Interest	80	91	89	76	93
	15,165	13,297	13,818	7,876	6,446
Share of earnings of affiliate	44	46	46	43	53
Other income – net	209	207	158	(35)	94
Income taxes	755	547	492	122	242
Non-controlling interests	582	627	529	305	259
Net earnings	657	533	420	331	292
Per participating share			Dollars		
Operating earnings	2.31	1.76	1.42	1.15	0.95
Net earnings	2.93	2.36	1.88	1.50	1.22
Dividends	0.575	0.49	0.44	0.40	0.39
Book value at year-end	16.91	14.64	13.83	11.65	10.86
Market price (Subordinate Voting Shares)					
High	37.50	35.40	37.50	26.00	14.50
Low	19.10	21.70	21.75	13.40	9.57
Year-end	37.00	24.75	33.20	25.60	13.75

OFFICERS

Paul Desmarais, Jr.

Chairman and Co-Chief Executive Officer

André Desmarais

President and Co-Chief Executive Officer

James W. Burns, O.C.

Deputy Chairman

P. Michael Pitfield, P.C., Q.C.

Vice-Chairman

Michel Plessis-Bélair, FCA

Vice-Chairman
and Chief Financial Officer

John A. Rae

Executive Vice-President,
Office of the Chairman
of the Executive Committee

Arnaud Vial

Senior Vice-President, Finance

Edward Johnson

Vice-President, General Counsel
and Secretary

Peter Kruyt

Vice-President

Gérard Veilleux

Vice-President

Denis Le Vasseur, C.A.

Controller

Monique Létourneau, CFA

Treasurer

Jeannine Robitaille

Assistant Secretary

BOARD OF DIRECTORS

James W. Burns, O.C. ⁽¹⁾
Deputy Chairman of the Corporation

Laurent Dassault
Managing Director, Dassault Investissements

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Counsel, Torys

André Desmarais
President and Co-Chief Executive Officer of the Corporation
and Deputy Chairman, Power Financial Corporation

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Paul Desmarais, Jr.
Chairman and Co-Chief Executive Officer of the Corporation
and Chairman, Power Financial Corporation

Michel François-Poncet
Vice-Chairman, BNP Paribas

Robert Gratton
President and Chief Executive Officer,
Power Financial Corporation

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Chairman, RJM Group Inc.

Jacques de Larosière de Champfeu
Honorary Governor of the Bank of France and
Adviser, BNP Paribas

The Right Honourable Donald F. Mazankowski, P.C., O.C. ⁽¹⁾⁽²⁾⁽³⁾
Company Director

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Distinguished Research Fellow, Centre for International Studies,
University of Toronto

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Chairman, Aon Parizeau Inc.

Jean Peyrelevade
Chairman of the Board, Crédit Lyonnais

P. Michael Pittfield, P.C., Q.C. ⁽¹⁾
Vice-Chairman of the Corporation

Michel Plessis-Bélair, FCA
Vice-Chairman and Chief Financial Officer
of the Corporation and Executive Vice-President and
Chief Financial Officer, Power Financial Corporation

John A. Rae
Executive Vice-President, Office of the Chairman of the
Executive Committee of the Corporation

Emőke J.E. Szathmáry, Ph.D.
President and Vice-Chancellor,
University of Manitoba

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation Committee

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Chairman of the International Advisory Council
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Archer Daniels Midland Company
United States of America

Lord Armstrong of Ilminster

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Forensic Investigative Associates plc
Director
3i Bioscience Investment Trust plc
Director
IAMGOLD Limited
Former Secretary of the Cabinet and Head of the
Home Civil Service
United Kingdom

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Chairman of the Executive Committee
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Chairman of the Board
Koor Industries Ltd.
Canada

Gustavo A. Cisneros

Chairman and Chief Executive Officer
Cisneros Group of Companies
Venezuela

Michel François-Poncet

Vice-Chairman
BNP Paribas
France

Baron Frère

Chairman
Groupe Bruxelles Lambert S.A.
Belgium

Pierre Haas

Honorary Chairman
Paribas International
France

F. Ross Johnson, O.C., LL.D.

Chairman
RJM Group Inc.
United States of America

Donald R. Keough

Chairman
Allen & Company Incorporated
United States of America

André Lévy-Lang

Former Chairman of the Board of Management
Paribas
France

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Company Director
Canada

The Right Honourable Brian Mulroney, P.C., C.C., LL.D.

Senior Partner
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Sylvia Ostry, C.C.

Distinguished Research Fellow
Centre for International Studies
University of Toronto
Canada

Moeen Qureshi

Chairman
Emerging Markets Partnership
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Publisher, Die Zeit
Germany

The Honorable Paul A. Volcker

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Wolfensohn & Co., Inc.
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Wei Ming Yi

Chairman of the International Advisory Council
China International Trust and Investment Corporation
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Corporate Information

Additional copies of this annual report as well as copies of the annual reports of Power Financial Corporation, Great-West Lifeco Inc., The Great-West Life Assurance Company, London Insurance Group Inc., London Life Insurance Company, Investors Group Inc. and Pargesa Holding S.A. are available from:

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Canada H2Y 2J3
or
Suite 2600
Richardson Building
1 Lombard Place
Winnipeg, Manitoba
Canada R3B 0X5

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent.

Website

Visit our website at: www.powercorp.com

Stock Listings

Shares of Power Corporation of Canada are listed on the Toronto Stock Exchange, under the following listings:

Subordinate Voting Shares: POW

Participating Preferred Shares: POW. PR.E

First Preferred Shares 1986 Series: POW. PR.F

First Preferred Shares, Series A: POW. PR.A



Power Corporation has been designated "A Caring Company" by Imagine, a national program to promote corporate and public giving, volunteering and support in the community.



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PRINTED IN CANADA